WHEATLEY HOUSING GROUP LIMITED

BOARD MEETING

24 June 2020, 10.30 BY VIDEO CONFERENCE

AGENDA

1. Apologies for Absence
2. Declarations of Interest
3. Minutes of meetings held on 12 May and matters arising
4. Group CEO update
5. Business Update
6. Service remobilisation
7. Weslo Housing Management Partnership Opportunity [report redacted]
8. Fire Prevention and Mitigation Update
9. Annual Return on Charter
10. Treasury Update
11. Finance report
12. Business Plan Financial Projections Reforecast
13. Interim governance arrangements update
14. 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**

Date of Meeting: **24 June 2020**

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1. Purpose

1.1. This report provides the Board with an update on current activity and a summary of key performance indicators.

2. Authorising context

2.1. The Group CEO has responsibility for business operations across the Group. The Covid-19 situation has had a significant effect on these operations and has impacted on the delivery of the Group strategy.

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

4. Background

4.1 As part of understanding the impact of Covid 19 the Scottish Housing Regulator ("SHR") recognised that Registered Social Landlords would be focusing on key indicators. As previously reported, the SHR introduced a monthly return under which we have to report – on a single consolidated group basis - these key indicators.

Classified as Internal

5. Discussion

5.1. A copy of our May return to the SHR is attached at Appendix 1. An update on performance relative to the key measures and other relevant measures is set out below:

Arrears

5.2. Gross rent arrears for Group RSLs including DGHP was 5.08% at the end of May. This compares to 4.93% at the end of April and 4.61% at the end of March. The significant increase in the number of our tenants transitioning to Universal Credit ("UC") was identified as an expected driver of an increase in rent arrears. This has proven to be the case, with £271k increase in UC arrears in the last period and an increase in the same period of £67k for non-UC arrears.

5.3. However, this breakdown does not include DGHP; as previously reported we are developing the ability to report at this more detailed level for DGHP but this is still to be finalised. Positively, the proportion of our customers moving onto UC has slowed in May to 6% compared to 16% in the previous month.

5.4. Across the wider sector the impact of Covid 19 on rent arrears is still difficult to predict. Standard & Poor's, for example, have estimated that rent arrears may reach between 8% and 12% for rated organisations across the UK. The first SHR monthly return has indicated arrears levels as high as 14.04% and an average of 5.76% across the wider Scottish sector.

5.5. In addition, Housemark, who provided benchmarking information across a range of organisations in the sector, have indicated that the level of gross rent arrears (as a percentage of rent due) rose by 10% across March to April. Figures for May are not yet available but we would expect Housemark will report a further increase in May.

5.6. We are continuing to focus on supporting customers including assistance with UC claims, our Tenancy Support Service and our Talk to Us communication campaign. We are also beginning a focused engagement campaign targeting customers who are on furlough or at increased risk of redundancy to offer support and raise awareness of our wraparound services such as welfare benefits advice.

5.7. This is in addition to ongoing Housing Officer engagement with customers. Digital tools such as visual analytics through Power BI, Facetime and conference calls are being used to support our customers and collect income, with staff attending appeals to represent customers virtually, taking payments over the phone and even making videos to encourage customers to get in touch for help and support.

5.8. As well as promoting the use of digital payment options such as web self-service, Direct Debit and touchtone, we have developed our ability to send reminders and missed payment alerts by text in bulk and are finalising testing of a new, innovative way to take payments using links sent by text and/or e-mail. We expect this to be rolled out in the coming weeks.

Classified as Internal

5.9. We also continue to lobby for changes to UC which would reduce the negative impact on our most vulnerable customers in our own right, through the Scottish Federation of Housing Associations and the Social Housing Resilience Group and to work with DWP locally to address any issues which arise, using our unique partnership arrangements.

5.10. [redacted]

5.11. [redacted]

5.12. [redacted]

Staffing

5.13. Our absence levels are now very low at just 1.7% for RSLs, 4.4% for Care and an overall Group level of 2.2%. This is the lowest absence level we have ever recorded.

5.14. We had 555 staff furloughed as at the end of May. The UK Government Scheme for entering new employees into the furlough scheme closed on 10 June.

5.15. We have initiated a survey with all staff (including those on furlough) to find out how staff feel they have been supported so far; what more we can do; and, looking to the future, what lessons we've learned as individuals, teams, subsidiaries and, collectively, as part of Wheatley.

5.16. The survey is the first part of a three-part process which will be followed by telephone interviews and thereafter Zoom focus groups which will identify, discuss and analyse issues and opportunities picked up by the telephone interviews and survey.

5.17. As indicated in the separate paper on remobilisation, we are closely monitoring the furloughing of staff and how this will require to be flexed to reflect the recommencement of services. We now have the option to return staff on a part time basis under the job retention scheme.

5.18. Income from the job retention scheme will allow us to retain staff in employment where they cannot carry out their normal duties, as well as continuing our support to our most vulnerable customers.

5.19. To the end of May, for example, we have spent £1.3m on EatWell food parcels. While the £350k of funding support from the Scottish Government was important in enabling this, it is clear that additional income is required to continue our support to those struggling to obtain or afford food.

Letting/Voids

5.20. Our ability to let across our RSL, MMR and PRS stock has been severely curtailed by Covid 19 restrictions. A key focus has been supporting Local Authorities and offering our void properties for homelessness.

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5.21. Over May we provided a further 112 properties. In total we have now provided 304 homes in total to Local Authorities for homelessness as follows:

- 232 in Glasgow
- 61 in Dumfries and Galloway
- 10 in Edinburgh
- 1 in West Lothian.

Repairs

5.22. We continue to deliver a life and limb service and have, to date, delivered a total of 19,496 repairs. Emergency repairs have been delivered on average in just 2.3 hours across the Group.

5.23. We are continuing to engage with our customers to seek to undertake gas safety checks and there are currently 287 outstanding across the Group. We are continuing to engage on the sector wide approach to responding to gas safety as part of the Scottish Government Resilience Group.

5.24. As part of the Group we are also discussing the requirements for smoke and heat detectors in homes by Feb 2021.

Customer Service Centre

5.25. Our performance in the Customer Service Centre, now operating virtually, has continued to be very strong. We are responding to 84.38% of calls within 30 seconds against a target of 75%, with an average waiting time of just 31.06 seconds.

5.26. The call volumes have reduced by c50% and we have also reduced the level of resource in the CSC. The CSC continues to support our Talk to Us campaign, engaging in outbound welfare and rent calls to vulnerable customers.

Outbound customer contact

5.27. A key focus has been ensuring we are continuing to engage our customers beyond just service related issues. Since lockdown, we have undertaken in excess of 100,000 outbound welfare calls via a combination of Housing Officers and the Customer Service Centre.

EatWell

5.22 We are continuing to focus on supporting vulnerable customers via our EatWell service. We have received £350k from the Scottish Government in recognition of the critical role we are in our communities and as at Friday 12th June we had delivered some 22,267 food parcels across the Group.

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Anti-Social Behaviour

5.23 We have seen an increase in the levels of antisocial behaviour reported to us since lockdown commenced. In the first ten weeks of lockdown 1,358 cases have been reported across Group. However, 80% of these relate to low level noise and neighbour disturbance which could be directly related to the current lockdown circumstances.

5.24 Whilst we have seen an overall increase in levels of antisocial behaviour the figures across Group remains proportionally low with an average of only 0.5 cases per week per patch being reported.

New build

5.25 We are continuing to engage with our contractors on an ongoing basis. The Scottish Government last week accelerated from the pre start site preparation phase to the 'soft start phase'.

5.26 As a result of this transition the majority of our sites are now operational and we are anticipating that the first handovers, of approximately 60 units in total, will be in early to mid-July.

6. Key issues and conclusions

6.1. Our performance against key areas continues to hold under the challenging circumstances. We are utilising the lessons learned to date to inform our range of remobilisation plans.

7. Value for money implications

7.1 The approach set out in this paper is designed to ensure we continue deliver as much value as possible for customers, while keeping them and our staff safe.

8. Impact on financial projections

8.1. There are no financial implications associated with this report.

9. Legal, regulatory and charitable implications

9.1. The returns to the Scottish Housing Regulator continue to be provided in line with their deadlines.

10. Implementation and deployment

10.1. The Executive Team will direct the deployment of the proposals set out in this paper.

11. Partnership implications

11.1 There are no partnership implications associated with this report.

12. Equalities impact

12.1. We will continue to take special account of those who have underlying health conditions or are shielding. The latter category of staff will not be required to leave their homes and it is recognised their ability to work may be restricted by the shielding provisions in force.

13. Recommendations

13.1 The Board is asked to note the contents of the report.

Appendix1 – SHR Monthly return

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Scottish Housing Regulator

Landlord: Wheatley Housing Group Ltd

Definitions

Month: May 2020

Please submit this return within one week of the end of the calendar month

Please tell us your staff absence level on the last day of the month:

Total number of staff (FTE)	2723	Comments:	Includes all Wheatley Group staff, RSL, care and commercial
Total number absent (FTE)	47	Comments:	As above
Percentage of staff absent	1.7%		
Number of staff placed on furlough (FTE)	555	Comments:	All staff including care as above
Gross rent arrears	£13,653,330.09	Comments:	
Total rent due	£268,718,191.68	Comments:	
Gross rent arrears (%)	5.08%		
Empty homes	204	Comments:	ARC definition.
Empty homes (last day of month)	523	Comments:	ARC definition.
Total lets	90	Comments:	ARC definition.
Lets to homeless (SST)	2	Comments:	Not included in Total Lets figure above.
Lets to homeless (short SST)	0	Comments:	Not included in Total Lets figure above.
Leased to relevant local authority	112	Comments:	Not included in Total Lets figure above.
Cash balances as at last day of the month	£139.2m	Comments:	The ledger position reported covers the Wheatley RSLs and their funding vehicle (Wheatley F

Report

To: **Wheatley Housing Group Board**

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

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

Subject: **Mobilisation of services**

Date of Meeting: **24 June 2020**

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1. Purpose

1.1 This report provides an update on planned staged approach to the remobilisation of business operations over the coming months, including the methodology for transitioning between stages and the fit with phases of the Scottish Government's publication, '*Scotland's route map through and out of crisis*'.

2. Authorising context

2.1. The Group CEO has responsibility for business operations across the Group. The Covid-19 situation has had a significant effect on these operations and has impacted on the delivery of the Group strategy. The Board's agreement is therefore sought to the principles of our approach for how we might continue to develop our services over the coming months, subject to the rate at which Scotland moves through the phases of Scottish Government's route map.

3. Risk appetite and assessment

3.1. The Group's risk appetite relating to laws and regulations is "averse"; defined as avoidance of risk and uncertainty is a key organisational objective. The Group strategic risk register identifies the particular risk associated with non-compliance with health and safety requirements.

3.2. Our priority in the coming months will continue to be protecting the health and safety of our customers, our staff and the other people they come into contact with. The proposals in this paper build on those agreed by the Board at its meeting on 12 May 2020 now that we have moved from lockdown to phase 1 of the Scottish Government route map.

4. Background

4.1. The Board agreed the framework for start-up and renewal of activity at its meeting on 12 May 2020. This framework highlighted that since lockdown in mid-March, we had been running a significantly altered operating model, with many staff working from home or furloughed. The framework also set out a scenario, which has now become reality, where the rate of Covid-19 infection – the R rate - decreased sufficiently to allow some easing of restriction of movement.

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4.2. Under this scenario plans were set out, and agreed, for how key services might be reintroduced. Many of these plans have been, or are in the process of being, implemented.

4.3. Since the previous update to the Board, the Scottish Government has provided greater clarity on the criteria that will determine when lockdown is eased, the phases this will follow and what it will mean for business and service operations. This information is contained in '*Scotland's route map through and out of crisis*' which was published on 21 May 2020 in advance of taking the first initial step to ease lockdown on 28 May 2020. This route map is built around four phases with phase 1 being enacted on 28 May 2020. Aspects of the Scottish Government framework with the greatest impact on our business and service mobilisation are provided at Appendix 1. The aspects covered are:

- **Criteria/condition** which shows that R rate is the primary driver for movement between phases and needs to be below one and getting lower in order for restriction to be eased.
- **Protection** which shows that physical distancing, hand-washing, hygiene measures, cough etiquette, and wearing of face masks in public spaces will all be required through all phases including into phase 4 where the virus is under control.
- **Business** which shows that remote and flexible working where possible will continue throughout and that some non-essential indoor workplace can reopen – with suitable physical and hygiene measures from phase 2 – with more including call centres permitted in phase 3. Construction sites will be able to take steps to prepare to reopen in phase 1 and restart in phase 2.
- **Getting around** which indicates that until phase 4, travel demand should be managed through staggered start times as there will be reduced capacity.
- **Schools and childcare** which indicates that schools will reopen, with a blended model of in school and at home learning, from 11 August subject to conditions for progress to phase 3 being reached by then.
- **Public and community services** which will resume gradually through the phases with reestablishment of justice system processes at phase 3 but normal operations not back until phase 4.

5. Discussion

5.1. Our planning assumptions for how lockdown would ease have been consistent so far with the Scottish Government's position and route map. The May report to the Board set out an anticipated service model for the June to September time period, while progress through the Scottish Government route map is determined by the extent to which Covid-19 is contained. We therefore anticipate that our own service model stages may straddle multiple phases of the Scottish Government route map phases; i.e. we do not anticipate having four different service models over the remainder of 2020.

5.2. At the time of writing the indications are that the Scottish Government will confirm sufficient progress to move to its phase 2 on 18 June with a potential date of 15 July for Phase 3.

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5.3. Reflecting this, and the results of planning and service development since the Board's last update, our approach to service mobilisation has been refined further. We have developed specific mobilisation plans for core service areas. Each mobilisation plan contains details of:

- Each stage of the remobilisation eg June-Sept, Oct-Dec and January onwards
- The activities within each stage
- The evaluation date for each stage
- How we will communicate the details of each stage and transitions with customers
- Personal Protective Equipment requirements

5.4. These plans will continue to be refined, and will be adapted depending on the actual rate at which progress is made through the phases of the Scottish Government route map. Highlights from our planned remobilisation, mapped approximately to the first three phases in the Scottish Government route map are shown below.

	SG Phase1 (current)	SG Phase 2 (estimated Jun-Aug)	SG Phase 3 (estimated Sept/Oct – Dec)
Letting	Via Local Authorities for homelessness	Temp accommodation / Housing First	Matched highest need customer
Income maximisation	Home working	Visiting Teams	Face to face teams and rent campaign
Fire safety	Vulnerable customers and ongoing incident management	Fire Risk Assessments	Household visits
ASB	Central team – advice, guidance and phone and limited face to face	Central team – investigate – phone and increased face to face	Central team - visits
Environmental	MSF focus	Grass cutting	Close cleaning
Eatwell	Customers in difficulty	Tapering-off	Most vulnerable customers
Repairs	Life and Limb	Safety First	
Investment	Suspended	Test projects	External
Commercial	Letting and services suspended	Letting – high demand Internal repairs	Further service mobilisation in line with group approach
New Build	Site-prep	Restart	
Care	Core service - telephone support and home working	Limited face to face and office redesign	Increased face to face and phased office working return
Others	Back office working from home Governance- online	Back office- no change Governance- no change	

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5.5. In order to transition through the stages in our remobilisation plans in a structured way we have developed an **evaluation methodology.** This will be applied at the end of each stage before transitioning to the next stage. A copy of the evaluation methodology is attached at Appendix 2. No service will move between stages without all elements of the evaluation being agreed by the relevant parties.

5.6. In this report we adopt the following terminology:

Service Stage 1 – the period between the service model moving from a lockdown-based model into its next stage and approximately the end of September. The transition dates to Stage 2 for each service will be subject to detailed review and this timeline is therefore indicative at this stage. This broadly corresponds to Scottish Government phases 2 and 3.

Service Stage 2 – anticipated to be the period from September/October until at least December, covering phase 4

5.7. We will update this at the next Board meeting in August, taking account of progress nationally and the impacts on our services, including our anticipated proposals to return to full service models in each area.

Housing and Environmental

Letting and void management

5.8. The vast majority of normal directly letting is currently suspended in line with the current restrictions. Our focus has been on offering all our void properties to Local Authorities to support the accommodation of homelessness (which is detailed more in a separate agenda item). The assumed key stages of the mobilisation plan are:

Service Stage 1:

- Reintroduction of direct letting, with virtual online viewings from July to assist customers, and a new protocol for accompanied physical viewings involving social distancing, PPE (gloves/masks) and post-viewing cleaning routines
- Delivering on our commitment to provide 300 homes for use as temporary accommodation
- Continue to deliver on our commitments made as part of the Housing First programme
- Work with Local Authorities to match highest need customers, including management transfers, homeless and Housing First, to properties
- First priority will be our existing “Band A” customers including Management Transfer and Enhanced Housing Needs customers as we know their current accommodation is unsuitable
- Continue to work on voids where resources and availability of parts allow
- Continue to work with partners to progress homeless cases where possible (eg temporary tenancies being converted to permanent)
- Identify personnel to create virtual multi agency allocation and void management teams
- Performance Management information to monitor progress

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Service Stage 2:

- Continue a matched letting service for highest need customers
- Void works completed on longer-term voids & backlog cleared
- Commence limited adverts for specialist property types eg LivingWell, adapted, and new build properties

<u>*Income*</u>

5.9. Maximising and protecting our income will remain a key focus as we progress through the Scottish Government route map out of crisis. In the next phases of this we will continue our successful remote working rent and income collection approaches. This will include:

Service Stage 1:

- Patch Housing Officer/income team continue to work remotely via phone, e-mail and text
- Set up Housing Officer face to face teams – for issuing letters and carrying out visits
- Cease issuing current form rent demand letters - create a new suite of letters more aligned with our successful "talk to us" campaign which has been running in recent weeks and will continue to do so
- Continue with referrals to Group Debt Recovery Team
- Review all arrangements/Expected Payment Plans- shifting customers to Direct Debit or Alternative Payment Arrangements if required
- Introduce escalated telephone/video appointments with specialist welfare benefits teams as required
- Review all non-engagement cases preparing to re-start escalation
- Focus on contacting customers who are furloughed and at risk of unemployment
- Introduce Webchat for income & SMART rules for automating contacts

Service Stage 2:

- Introduce deployment of face to face teams
- Review and reset all escalation currently within the system
- Introduce new rent demand letters
- Preparing cases for Court resuming
- Updated/refreshed rent campaign which may encompass the Christmas period
- Introduce secure messaging via customer self-service accounts – including arrears letters

<u>*Fire safety*</u>

5.10. During the initial lockdown period our focus has been on our most vulnerable customers and incident management. This has included responding to extremely high risk customers (19 visits with appropriate PPE and distancing) and visiting significant fires to provide fire safety recommendations and lessons learned.

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5.11. As lockdown begins to ease we anticipate moving through the following stages:

Service Stage 1:

- Fire Safety Officers (“FSOs”) returned to CIP Fire Safety Team
- FSOs will undertake high rise block inspections in lieu of Scottish Fire and Rescue Service (“SFRS”), who are not anticipated to provide this service
- Desk top review of existing Fire Risk Assessments for Relevant Premises in high rise blocks undertaken
- Housing Officers to identify customers who fit SFRS ‘Very High Risk’ criteria
- FSOs will conduct telephone consultations with Very High Risk customers including new Housing First customers and deliver bespoke fire safety/prevent products

Service Stage 2:

- FSOs will carry out vulnerable household visits (PPE/Social distancing if required)
- FSOs conduct high rise relevant premises Fire Risk Assessments
- FSOs will undertake highrise block inspections in lieu of SFRS

Anti-social behaviour (“ASB”)

5.12. As part of our response to lockdown we implemented a centralised approach through which the ASB Team reviewed, recorded and responded to customers reporting any incidents of antisocial behaviour including those that would in normal operations be dealt with locally by Housing Officers. This approach has worked well and involves the team calling customers, providing advice and guidance and recording details.

5.13. We recognise that responding to ASB is a priority for customers and are seeking to respond to this in the remobilisation plan. The key stages for resumption are:

Service Stage 1:

- Highest priority case (known as “CAT A”) investigations + 200 case backlog prioritised and investigated
- CAT B investigations led by Housing Officers to allow specialist ASB team to prioritise most serious cases
- Patch and field Housing Officers will investigate all Cat B ASB to a resolution (telephone investigations – visits by exception)
- CIP Police Intelligence Team available to assist with ASB investigations

Service Stage 2:

- Teams are able to visit witnesses and perpetrators in person whilst adhering to social distancing guidelines
- Incremental return of CIP Police Team – subject to Police Scotland permitting this

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Environmental maintenance services

5.14. Phase 1 of the Scottish government route map, which we are in at the time of writing, allows non-essential outdoor workplaces with physical distancing to resume once relevant guidance agreed. Our contact with the Scottish Government has confirmed that this includes aspects our environmental work such as grass cutting. Reflecting this and our approach to remobilisation more generally, our proposed approach to our environmental service will involve:

Service Stage 1:

- Continue to deliver services within Multi-Storey Flats.
- Commence grass cutting & gardening services as well as arborist work.
- Void Team would be in place
- Environmental staff continue to support EatWell & Emergency Fund requests
- Close cleaning progressively reintroduced
- Bulk uplifts to continue (these have been ongoing during lockdown stage)

Service Stage 2:

- Close Cleaning fully resumed

EatWell

5.15. Unlike the other services discussed here, our focus for EatWell will be on striking an appropriate balance between making sure we support our customers when they are most vulnerable, and transitioning the EatWell service to its primary focus on our most vulnerable customers.

Service Stage 1:

- continue to receive referrals and deliver food parcels for those in need across our three main local authority areas (Glasgow, Edinburgh and Dumfries and Galloway), we would
- Introduce a supermarket voucher for new referrals (approx £30 for single person)
- Look to reduce food supplies to customers in the west to between one – three weeks (in line with Edinburgh and Dumfries)

Service Stage 2:

- Revise/update criteria for ensuring we continue to target those in greatest need
- Review the impact of the changes above including the impact on staff resources on food voucher option
- Reduce staff levels (following re-instatement of grass cutting/void work) and as staff move back to normal duties
- Continue to support referrals (at a significantly reduced level) across Group
- Formalise discussions with Fareshare on future ‘community partner’ status across Group

Classified as Internal

Repairs, investment and compliance

Repairs

5.16. In line with the slight easing of lockdown in phase 1 of the Scottish Government route map we have reassessed our repairs service which was operating on a 'life and limb' service. The restrictions intended as part of phases 2 and 3 of the route map for easing lockdown mean that a full service still cannot be resumed.

5.17. However, there is scope to extend the service beyond its current level to what we have termed "Safety First Repairs". This will include all emergency works and works that while not necessarily deemed essential are considered necessary to avoid significant inconvenience to the customer.

Service Stage 1

5.18. We will introduce the Safety First Repairs service from the start of July. A comparison between the existing life and limb service is set out below:

Life and Limb	**Safety first repairs**
Definition of Service	Additional Level of Service
▪ Serious damage to property ▪ Property is left Insecure ▪ All Fire Safety identified repairs will continue to be raised and attended ▪ Lifts - Essential Maintenance and person trapped	▪ Customer vulnerability ▪ Significant inconvenience ▪ Potential damage to property ▪ Persistent leaks ▪ All Fire Safety identified repairs will continue ▪ Lifts - to include where GDX System is down
Examples of Life and Limb Service	Examples of Safety First service
▪ Burst water supply pipes causing flooding ▪ Customer is asked to contain minor leaks/drips ▪ Choked W.C bowls ▪ Choked drains ▪ Secure front doors/windows ▪ Gain access where no keys available ▪ Dangerous electrics ▪ No Power ▪ No cooking facilities ▪ No heating ▪ Dangerous ceiling ▪ Rain/water penetration ▪ Leaks at W.C bowl or soil pipe	▪ Renew items e.g. .shower (subject to availability) for vulnerable customers ▪ Persistent leaks - identify source & prevent leak ▪ Renew WC Bowls ▪ CCTV Survey of drains ▪ Renew front doors/windows (subject to availability) ▪ Renew Controlled entry handset ▪ Customer has alternative cooking facilities but not ideal longer term ▪ Temporary heating been in place greater than 7 Days

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Service Stage 2:

- Full repairs service reintroduced

In stage 2 we will resume a full repairs service. A key element of the remobilisation plan is planning to mitigate the risk of a significant spike in demand from the resumption of a full service. This will be addressed in part by completing a large number of the more urgent backlog repairs during the Stage 1 period.

<u>Investment and compliance work in existing homes</u>

Service Stage 1:

5.19. Essential compliance activities such as gas servicing, lift maintenance and M&E work in multi storey flats has continued through lockdown. Our focus during the next phases of the Scottish Government's route map will be on clearing the back-log of expire CP12 gas safety certificates through high intensity contact from the call centre, refreshed customer communications, and where the customer is not engaging, reinstating our forced entry procedure. Going forward we will look to embed the high intensity outbound calling as part of our business as usual gas process, given its success to date in reducing no-accesses.

Service Stage 2:

5.20. We intend restarting external investment works and cyclical maintenance from late September, assuming progress continues through the phases of easing lockdown. In advance of this, we are exploring the possibility of restarting some projects across our Group's operating footprint that were put on hold at lockdown, to build experience in ensuring necessary safe-working practices and to provide customers with confidence on our approach and continued commitment in this area. At this stage, non-essential internal capital investment works (eg new kitchens where these are being replaced on a life-cycle programme basis) are not anticipated to take place until the new calendar year.

5.21. We plan to survey customers who are due to have any internal works done prior to the end of the financial year, to assess their views on having tradespeople in their homes and identify any concerns arising. In doing so, we will explain the measures we will take to mitigate health and safety risks, such as how we will operate social distancing principles and the PPE that will be used. We anticipate repeating this survey exercise around December/January in respect of customers scheduled to have internal investment/compliance work done in 2021/22.

Commercial letting and factoring

Letting

5.22. [redacted]

5.23. [redacted]

5.24. [redacted]

Classified as Internal

New build development

5.25. Re-opening of construction sites is mentioned specifically in the Scottish Government route map. This includes preparations in advance of mobilisation during the current SG phase 1 and implementation of the remaining stages of the industry's staged return plan during phase 2.

5.26. We have resumed activity on our sites although as advised previously, tasks may take longer to complete, meaning the timescale for us to receive completed homes may be longer than usual. We are actively engaging with our contractors on an ongoing basis to understand the implications of this for our development programme.

Care

5.27. Of the 29 services, 7 currently have staff home- working resulting in the full or partial closure of 7 staff office locations. Staff in all of these services have been providing, in the main, telephone support to people we work for but responding in person, direct from their home if required with around 23% of staff working solely from home, 27% doing a mixture of home and office working and the remaining staff working on-site.

5.28. Our planning for the remobilisation of services is based on undertaking an assessment on a service by service basis. Whilst each remobilisation will take into account the assessment of individual services the overarching priorities will be:

Service stage 1

- staff continuing to work from home where possible and face to face contact kept to a minimum
- reviewing and revising all associated operational policies and procedures including health and safety arrangements such as increasing PPE supply, and use of public transport
- designing offices to ensure that they support social distancing and infection control requirements
- Care technology will be fully rolled
- discussions with purchasers and the care regulator

Service stage 2

- staff will start returning to offices in stages
- increased face to face contact with people we work for
- internal services provided to Group RSLs will be reviewed and remodelled
- reintroduction of the use of some common spaces within our care services and HMOs

5.29. Our care services have continued to provide an essential service to the people we work for during the pandemic and will continue to do so using appropriate physical distancing and hygiene measures as lockdown eases in line with the Government route map. This will include greater resumption of face to face activity, particularly for vulnerable people we work for, when deemed safe to do so.

Classified as Internal

Back-office support services and governance

5.30. Our back-office support services will continue to be delivered through home working as present. Similarly, our governance approach will remain unchanged through Service Stage 1 to the end of September with virtual board meetings, reduced agendas and reduced board member numbers dialling in to allow easier management of conference calls/video calls. We will consider the potential for the October Wheatley Group Board meeting to be face-to-face, subject to this being permitted by Scottish Government guidance.

Personal Protective Equipment ("PPE")

5.31. The service transitions above will require an increasing use of PPE. At present, we have sufficient supplies across the Group for the next 12-week period based on the anticipated Stage 1 service models of all remobilisation plans and we have robust supply lines. The confirmed availability is also a key element of the evaluation criteria for any service remobilisation progressing to Service Stage 2.

5.32. We have also made progress recently through the Scottish Government and we can now access additional supplies through an arrangement it has put in place with Lyreco. We have tested this arrangement and it worked well with next day delivery. In addition, as a contingency, we have placed orders so as we will have a further 25% stock beyond what we expect to need. The stock will be held as 'emergency supplies' in Dumfries, Edinburgh and Glasgow.

6. Key issues and conclusions

6.1. The plans set out in this report will be kept under review and flexed as necessary depending on progress through the phases in the Scottish Government route-map. They will also be informed by the experience we gain from operating our interim service models. Prior to progressing to the next Stage, a detailed assessment and evaluation will take place in accordance with appendix 2, and the Board will be updated on progress at its next meeting in August.

7. Value for money implications

7.1. The approach set out in this paper is designed to ensure we continue to deliver priority services for customers within government restrictions, focusing on keeping them and our staff safe. Customer feedback will form an important part of our assessments before moving to the next Stage service models.

8. Impact on financial projections

8.1. Our revised business plan is being presented to the Board for consideration at this meeting.

9. Legal, regulatory and charitable implications

9.1. The approach set out in this paper is based on latest the Scottish Government Framework and in particular '*Scotland's route map through and out of crisis*'. We will continue to refine our proposals as the detail of government advice develops including in light of progress through the identified phases. We continue to notify the Scottish Housing Regulator, as necessary, of changes to our operating model and services through their "notifiable events" web portal.

Classified as Internal

10. Implementation and deployment

10.1. The Executive Team will direct the deployment of the proposals set out in this paper.

11. Partnership implications

11.1 Our new partner, Dumfries & Galloway Housing Partnership, is fully integrated into our Coronavirus response plan, and the proposals in this paper apply to all parts of the Group.

12. Equalities impact

12.1. We will continue to take special account of those who have underlying health conditions or are shielding. The latter category of staff will not be required to leave their homes and it is recognised their ability to work may be restricted by the shielding provisions in force.

12.2. Given the increased risk to BAME staff we will also undertake tailored risk assessments to ensure these staff are appropriately protected as part of the remobilisation.

13. Recommendations

13.1 The Board is asked to:

- agree the approach set out in this report
- note that a further update on our service models will be provided to the next meeting in August

List of appendices:

1- Scottish Government route map through Covid-19

2- Evaluation methodology for progressing Wheatley service models to their next stage

Classified as Internal

Appendix 1 – Scottish Government Route Map Through Covid-19

	Phase 1	Phase 2	Phase 3	Phase 4
Criteria/ conditions	R is below 1 for at least 3 weeks and the number of infectious cases is starting to decline. Evidence of transmission being controlled also includes a sustained fall in supplementary measures including new infections, hospital admissions, ICU admissions, deaths of at least 3 weeks.	R is consistently below 1 and the number of infectious cases is showing a sustained decline. WHO six criteria for easing restrictions must be met. Any signs of resurgence are closely monitored as part of enhanced community surveillance.	R is consistently low and there is a further sustained decline in infectious cases. WHO six criteria for easing restrictions must continue to be met. Any signs of resurgence are closely monitored as part of enhanced community surveillance.	Virus is no longer considered a significant threat to public health.
Protection	Physical distancing requirements in place. Frequent handwashing and hygiene measures for all. Cough etiquette is maintained. Face coverings in enclosed public spaces, including public transport.	Physical distancing requirements in place. Frequent handwashing and hygiene measures for all. Cough etiquette is maintained. Face coverings in enclosed public spaces, including public transport.	Physical distancing requirements in place. Frequent handwashing and hygiene measures for all. Cough etiquette is maintained. Face coverings in enclosed public spaces, including public transport.	Physical distancing requirements to be updated on scientific advice. Frequent handwashing and hygiene measures for all Cough etiquette is maintained. Face coverings may be advised in enclosed public spaces, including public transport.
Business	Remote working remains the default position for those who can. For those workplaces that are reopening, employers should encourage staggered start times and flexible working. Non-essential outdoor workplaces with physical distancing resume once relevant guidance agreed. Construction – Phases 0-2 of industry restart plan can be implemented. Industry to consult government before progressing to phase 2.) Preparing for the safe reopening of the housing market. Workplaces resuming in later phases can undertake preparatory work on physical distancing and hygiene measures.	Remote working remains the default position for those who can. Non-essential indoor non-office-based workplaces resume once relevant guidance agreed – including factories & warehouses, lab & research facilities – to re-open with physical distancing. Construction sector to implement remaining stages of phased return. Relaxation of restrictions on housing moves.	Remote working remains the default position for those who can. Non-essential indoor office workplaces can open, once relevant guidance agreed, including contact centres with physical distancing.	Remote and flexible working remains encouraged. All workplaces open with improved hygiene and in line with public health advice.

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Getting around	Consistent with the reopening of workplaces set out in this phase, where home working is not possible businesses and organisations are encouraged to manage travel demand through staggered start times and flexible working patterns.	Consistent with the reopening of workplaces set out in this phase, where home working is not possible businesses and organisations are encouraged to manage travel demand through staggered start times and flexible working patterns.	Public transport operating full services but capacity still significantly limited to allow for physical distancing. Travel at peak times discouraged as far as possible.	Public transport operating full service.
Schools and childcare	Re-opening of child minding services and fully outdoor nursery provision.		Children return to school under a blended model of part-time in-school teaching and part-time in-home learning. Subject to progress 11 August All childcare providers reopen subject to public health measures, with available capacity prioritised to support key worker childcare, early learning and childcare (ELC) entitlement and children in need.	
Public, Community services	Gradual resumption of key support services at the community level with physical distancing and hygiene measures. Re-opening of court and tribunal buildings, with limited business and public access.	Further scaling up of public services from Phase 1 where it is safe to do so.	Further resumption of justice system processes and services.	Public services operating fully, in line with public health advice, with modifications and changes to service design, including increasing use of digital services where appropriate.

Classified as Internal

Appendix 2 – Evaluation approach for progression to next Stage service model

Prior to any service moving from Wheatley Stage 1 to Stage 2 (and then Stage 3), the following assessment matrix must be completed. It is anticipated that Wheatley Stage 1 will correspond to broadly the Scottish Government's phases 2 and 3 (covering the summer and the period when schools are expected to resume in August to potentially around the end of September). These evaluations may therefore be anticipated to take place in advance of a further shift in service model around September or October.

An evaluation sheet will require to be provided to the Executive Team as part of the proposals for moving to a new stage of service model.

Service: [xxxxx]	**Description**	**Confirmation**
Evaluation of current Stage service model, including customer feedback	The proposal to the ET includes an evaluation of how the service model has performed in its current Stage which sets out, as a minimum: 1. Customer feedback – the proposal should explain how customer feedback has been gathered; this may include surveys / analysis of CSC contact data / complaints / Housing Officer records, etc 2. Staff feedback – how staff feel the service model has operated and strengths/weaknesses 3. How effectively supporting infrastructure has operated - for example IT, fleet and relevant Wheatley Solutions services 4. How risks have been managed and mitigated 5. Lessons learned to take into the next Stage service model	E-Signature – Director/Managing Director
Results of health and safety review of proposals, including PPE consumption	Health & safety team reviewed the proposals to move to the next Stage and identified the following issues: [list issues identified] The anticipated impact in terms of PPE consumptions arising from the proposed change in service model Stage has been appropriately forecast and the Group Health and Safety and Procurement teams have confirmed that we will be able to provide the necessary PPE. These have all been addressed in the revised proposals being presented to ET.	E-Signature – Group Health & Safety Lead E-Signature – Group Procurement Manager
Impact of proposals on furlough list	The proposal will involve the following staff returning from the furlough list: [list staff, FTE impact] This will reduce furlough income by £[xxx] per month / £[xx]x in total. This has been included in the final approved ET proposals following prior agreement with the Director of Employee Relations.	E-Signature – Director of Employee Relations
Trade Union consultation	Consultation has been held with relevant trade unions, being [xxx] and [xxxx]. The following issues arose from this process: [list any issues arising] These have been addressed in the following ways in the final proposals being presented to ET: [explain how issues addressed] All relevant trade unions are comfortable with the proposals to move to the next Stage service model.	E-Signature – Director of Employee Relations
Scottish Government guidelines	The proposal being presented complies with all relevant government and regulatory guidelines based on the national phase of activity it is expected to cover. [provide brief summary of how this is achieved]	E-Signature – Director / Managing Director
Impact on other service areas	The proposal will require additional supporting resource relative to the previous Stage from the following services: [list any impacts on other services impacted, eg Wheatley Solutions or 360] These impacts have been agreed with the relevant Directors/Managing Directors, and there are no additional implications (eg on the furlough list) beyond those set out in the proposal to ET.	E-Signature – Director/Managing Director
Communications	The proposal has been reviewed by the Group Communications team who have advised on an appropriate strategy for customer, staff and wider stakeholder messaging. This has been included in the proposal being presented to the ET.	E-signature – Director of Communications and Marketing
Executive Team approval	The proposal has been approved by the Executive Team and all required amendments have been incorporated.	E-signature – Group CEO

Classified as Internal

Report

To: Wheatley Housing Group Board

By: Tom Barclay, Group Director of Property & Development

Approved by: Martin Armstrong, Group Chief Executive

Subject: Fire Prevention and Mitigation Update

Date of Meeting: 24 June 2020

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1. Purpose

1.1 The purpose of this report is to provide Board with:

- An update on our end of year performance against agreed targets for reducing Accidental Dwelling Fires and increasing the number of Home Fire Safety Visits;
- An update on the national picture and the how the Scottish Fire & Rescue Service have redesigned their services to reflect and take account of the Covid 19 pandemic; and
- Information that clearly demonstrates the measures we have introduced to ensure fire safety and customer well-being continues to be of paramount importance during the post Covid 19 lock down period.

2. Authorising context

2.1 The Group's Authorise/Monitor/Manage (GAMM) matrix sets out what matters are reserved to Boards/Committees and what is delegated to the Group Chief Executive. This report relates to strategy implementation, as such the proposals within the report fall within the powers that are delegated to the Group Chief Executive which are exercised via the Group Executive.

3. Risk Appetite and assessment

3.1 The Group risk appetite relating to issues of technical compliance is averse, defined as avoidance of risk and uncertainty is a key organisational objective.

3.2 The Group Board approved "Delivering Safer Communities: Our Fire Prevention and Mitigation Framework" in August 2017. This report provides Board with assurance in relation to the on-going implementation of the Framework and our ability to respond Post Covid 19 constraints.

4. Background

4.1 As a key strategy for Group, the Fire Prevention and Mitigation Framework ("FPMF") was approved by the Board on 30th August 2017. It was recognised at this time that the Framework was particularly relevant to GHA and Cube, both of whom have a significant percentage of Multi-Storey Flats ("MSFs") within their stock profile (circa 20% GHA & circa 50% Cube). The FPMF is the overarching document that clearly evidences to all stakeholders the importance we place on fire safety and how we go about ensuring our homes are constructed, managed and maintained in a way which maximises fire safety for our customers.

4.2 As a Group we are proud to be nationally and internationally recognised for defining excellence and we have an outstanding record in delivering sector leading levels of service and innovation in all fields in which we operate. Within the context of fire safety our commitment to delivering excellence has been endorsed by the Scottish Government's, Building Safer Communities, and Unintentional Harm Hub who highlighted our Community Improvement Partnership ("CIP") Fire Safety Operating Model as a Fire Prevention Exemplar.

4.3 Notwithstanding this, fire safety, and keeping our customers and communities as safe as they possibly can be, will always be of paramount importance to Group and this is recognised within our new Group 2020-2025 Strategy: Inspiring Ambition, Unleashing Potential, in which we clearly state that fire safety, will remain a top priority. This commitment has even greater significance and relevance in these unprecedented times, and it is crucially important that we can demonstrate to customers, Boards and funders how we have redesigned our fire safety services and resources to take account of the constraints the Covid 19 pandemic places on us.

4.4 This report will therefore summarise our fire safety approach and performance pre Covid 19; how we have subsequently adapted our model to reflect the challenges that the current lock down environment brings and, importantly, how we are reintroducing our services in a phased manner that reflects resource availability and national guidance.

4.5 Like all other organisations the Scottish Fire & Rescue Service ("SFRS") has had to make significant changes to what services they provide and how they provide them. This report will provide Board with an update on these changes and how we have engaged with SFRS to ensure the impact on our customers and communities has been mitigated as much as possible.

4.6 Further to this, and in recognition of the importance Group places on delivering unrivalled fire prevention and mitigation services, we have set extremely challenging targets in relation to reducing Accidental Dwelling Fires ("ADFs") and increasing the number of Home Fire Safety Visits ("HFSVs") For 2019/20 we aimed to reduce ADFs by 10% and increase HFSVs by 10%. This report will also provide an update on the performance achieved against these targets

5. Discussion

5.1 Detailed below in table 1 is an update on the end of year performance figures for the reduction of ADFs. Further analysis and contextual information is also provided that demonstrates our understanding of key information such as causal factors, severity of fires and household composition. Importantly we are also able to evidence how we are making a positive contribution to Scottish Fire and Rescue performance indicators.

Table 1: Accidental Dwelling Fire Performance Update

Accidental Dwelling Fires			
	**Target 2019/20: Reduce Accidental Dwelling Fires (ADF) by 10%** (These figures refer to ADFs in the west, primarily Glasgow)		
2017/18	**2018/19**	**2019/20**	**2019/20 – Performance against target**
269 ADFs	**240 ADFs (- 11%)**	**217ADFs**	**-23 (- 9.6%)**

5.2 It should be noted that the information contained within the table above relates to Glasgow and the West. We have been recording ADFs in the East from September 2019 and since then there have been 12 ADFs recorded. When comparing West with East data over the September to March period we can evidence that the West is responsible for the majority of Group ADFs.

5.3 The full fire prevention data set for Group will be available for 2020/21 onwards; our seconded SFRS watch manager now has access to all relevant fire data for Group properties on a daily basis. In January 2020 our CIP Lead and seconded SFRS Watch Manager met with the national SFRS Prevent & Protect Lead; Partnership Manager; Operational Intelligence Lead and representatives of their data analytics team. As part of this meeting the SFRS representatives agreed to support a short life working group to discuss improved data sharing and working towards designing and delivering an electronic data transfer approach for the whole of Group.

5.4 In February CIP representatives also met with the SFRS Senior Lead Officers (and their Prevent & Protect Teams) for Dumfries, Glasgow and North Lanarkshire to discuss improved local partnership working and how we could work together to deliver the ‘commitments’ outlined in our Group/SFRS Fire Prevention Charter. Similar meetings with SFRS representatives in Edinburgh, West Lothian and Renfrewshire were also scheduled but had to be cancelled due to Covid 19 restrictions.

5.5 Following a detailed analysis of the root causes of ADFs in 2019/20 and the additional intelligence available from SFRS it has been established that:

- There is a consistent theme in relation to very small fires within kitchen areas. 179 or 82% of all the ADFs occurred in kitchens and 79 of these were resolved by SFRS removing a pot from the cooker or switching the cooker off.
    - The fires mainly involve lone persons being distracted or having fallen asleep whilst cooking. The fitting of the new enhanced LD1 and LD2 smoke and heat detection system is helping to ensure that fires/potential fires are detected earlier and SFRS are therefore notified quicker and more often.
    - There were only 7 fires involving chip pans. Over the course of the last year our Fire Safety Officers have supplied 67 air fryers to customers who have agreed to give up their chip pans.
- 79 (36%) of all ADFs occurred in MSF properties.
- There were only 5 'Significant Fires' involving injury to a person or significant damage to property.

5.6 We know from information provided by SFRS that ADFs for the wider Glasgow and the West area reduced by a total 20 for 2019/20 (784 – 764 or 2.5%). These figures put into stark context the outstanding achievements delivered by Group over the last two years in terms of fire prevention and mitigation; by consistently implementing the commitments within our FPMF we have managed to reduce our ADFs across Glasgow and the West by 21%. This performance should also be looked at in the context of our stock profile and customer demographics compared to Glasgow and the West as a whole. Add to this the fact that our LD1 and LD2 smoke and heat detection programme is resulting in more minor fires being reported to SFRS by customers and our performance becomes even more impressive.

5.7 Despite the constraints placed on us by the Covid 19 crisis the positive trend in relation to the number of ADFs has continued into 2020/21. We can report that in April/May 2020 we have had 38 ADFs compared to 42 in the same period the previous year. This equates to a YTD 9.5% reduction.

5.8 Access to the SFRS intelligence allows us to understand better the nature, extent, location and causal factors of fires across our communities, and importantly, to design proactive prevention based solutions. This includes our Stay Safe communication campaign and Fire Safety Officer intervention visits, both of which better educate customers and reduce the risk of fires. See below for examples:

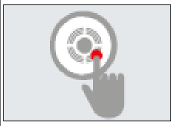
- We produced regular organic content on all of our RSL Facebook and Twitter channels encouraging people to sign up for a home first safety visit and pushing people to the Stay Safe sections on our websites. During this period we created:
    - 62 posts on GHA's Facebook with a reach of 53,794; and
    - 56 posts on GHA's Twitter with 24,278 impressions.

- Our Fire Safety Officers carried out 405 visits to high risk customers that had been identified by Housing Officers or Scottish Fire & Rescue. These bespoke and tailored intervention visits allow specialist advice to be given and products such as air fryers, fire retardant bedding and stove guards to be supplied and fitted. The importance of these visits to preventing instances of fire occurring or re-occurring cannot be overstated.

5.9 Detailed below in table 2 is an update on the end of year performance figures for the increase in HFSVs undertaken across our Group stock portfolio. It should be noted that these figures are only up to 16th March 2020 as SFRS suspended all HFSVs on this date in response to Covid 19. We are currently recording HFSV in all our subsidiaries with the exception of DGHP. Post Covid 19 we will be in a position start recording all DGHPs Fire Incident and HFSV data too.

Table 2: Home Fire Safety Visit Performance

Home Fire Safety Visits



Target 2019/20: Increase HFSV by 10%
(Due to Coronavirus SFRS HFSVs were suspended by SFRS on 16th March 2020, at this point we were on track to achieve our 10% increase target)

2017/18	2018/19	2019/20	Result 2019/20 (as at 16th March)
1550	**2812 (+81%)**	**3036**	**+224 (+8%)**

5.10 Whilst we are only able to report an increase of 8% for 2019/20 following the suspension of HFSVs by SFRS on the 16th March only a further 79 visits were required over the two-week period to 31st March to meet target; this would have been easily achieved. 2020/21 performance seen us exceed the 3,000 mark and, when compared to our 2016/17 performance of 1004, is undoubtedly making a hugely positive contribution to not only our fire prevention performance but also the figures nationally.

5.11 In 2018/19 there were 69,197 HFSVs completed across Scotland, our Group figure of 2,812 means that 4% of all HFSVs in Scotland were at Group properties. Glasgow City has an annual target of 10,000 HFSVs and for the first time in 2018/19 achieved this figure (10,140). Our Fire Safety Operating model which contributed to this success was commended by the new Chief Fire Officer for Scotland at an event in Glasgow City Chambers. Glasgow has again in 2019/20 exceeded their performance target (10,084 visits) with the help of our Group referrals.

Our Approach to Fire Prevention and Mitigation Post Covid 19 Lock Down

5.12 Like most other organisations across the world, the Covid 19 pandemic has had a significant impact on our ability to carry out our normal day to day activities; unsurprisingly our approach to mitigating the risk from fire across our communities has not been immune to this impact. Detailed below for Board information are the main areas that have been impacted to date:

- Local Authorities suspending bulk uplifts and therefore increasing the risk of fire within internal common areas, back courts and open spaces;
- W360 Fire Safety Officers not able to routinely respond to instances of fire or referrals of high risk individuals from Housing Officers;
- SFRS suspending HFSVs and quarterly block inspections of our MSFs; and
- Our agreed Fire Risk Assessment programme being suspended.

5.13 Since the start of the Covid 19 crisis we have constantly reviewed our available resources and closely monitored all UK/Scottish Government Guidance in relation to key workers, social distancing and the easing of lockdown restrictions. The information below provides Board with detail on our immediate response to these issues and how we aim to implement a phased return to delivering business as usual fire prevention and mitigation services as quickly as possible.

Local Authorities suspending bulk uplifts

5.14 Whilst most Local Authorities are now opening up their recycling centres the majority are still not operating a bulk uplift service. To minimise the risk from fire we have created geographic teams within our Environmental Service to remove bulk items from MSF sites, tenements and main door properties on a daily basis. Importantly, these teams are also ensuring we have a visible presence across all our areas and stock types and can flag up any other issues that they may be encountering. During the lock down period the teams have seen a large spike in fly tipping across the wider estate and are currently removing circa 100 tonnes of bulk and fly tipping per week. These teams are also visiting our Living Well complexes and all office accommodation on a daily basis to ensure that there are no issues.

Fire Safety Officers not able to routinely respond to instances of fire / referrals from Housing Officers and HFSVs being suspended

5.15 Whilst adhering to social distancing guidance, and using the appropriate PPE, we initially retained one FSO to respond appropriately to extremely high risk customers who, for example, may have had repeat instances of fire or are extremely vulnerable. The FSO arranged to drop off any products that were, following telephone interaction, deemed appropriate. The FSO also provided telephone advice to customers who were referred by Housing Officers or who had minor fires. During April and May our retained FSO visited the site of 34 fires and provided management reports with recommendations; he also visited and supported 25 vulnerable customers including 14 Housing First customers and provided them with fire safety products and services.

5.16 The SFRS halted its Home Fire Safety Visit ("HFSV") programme on the 23rd March 2020 to help prevent transmission of COVID 19; however, in response to a spike in fire incidents during the month of April they have now launched a national campaign called *#MAKETHECALL*. This campaign encourages professionals, carers, family and close friends to refer people they know, who they believe fit the following risk categories, for a HFSV:

- those people who are over 50 and smoke;
- and may be on oxygen,
- people living alone or who have mobility issues

5.17 As of Monday 08th June our other three FSOs have returned to their substantive posts and are now also available to carry out additional follow up visits and calls to our most vulnerable and at risk customers (whilst adhering to all appropriate H&S and social distancing guidance). This will include any high risk customers that are referred by SFRS following a #MAKETHECALL HFSV.

5.18 We will also support the #MAKETHECALL campaign by working closely with the communication team to raise awareness of this important initiative, via our digital and media platforms, across all Group subsidiaries and ensure our staff are referring all customers who fit the identified risk categories.

SFRS suspending quarterly block inspections of our MSFs and Fire Risk Assessment programme being suspended

5.19 Whilst not a legal requirement under Part 3 of the Fire (Scotland) Act 2005, FRAs for the common areas of domestic premises it is a strong recommendation within Scottish Government guidance that those organisations responsible for the management of high rise blocks carry out an assessment of fire risk in their buildings as part of their corporate responsibility. In response to this Board recently approved a detailed 3-yearly cycle of Fire Risk Assessments across our MSF stock portfolio.

5.20 The programme commenced in February 20 and we are currently in the process of undertaking fire risk assessments in six of our MSF properties. Unfortunately, this work had to be suspended on the 9th March due to the on-going Covid 19 situation. **The reinstatement of our FRA programme has been identified as an extremely high priority for Group and it will re-commence as soon as possible.** It is currently envisaged that, in line with the Scottish Government's phased approach to easing lockdown restrictions and our ability to undertake identified repairs and maintenance, it will be October before we can reintroduce this service.

5.21 In addition to FRAs another key element of delivering a robust approach to fire prevention and mitigation within our MSF stock portfolio is the quarterly SFRS MSF block inspection programme. The purpose of the inspections is to ensure compliance with regulatory requirements relating to the common areas of private dwellings and that all fire-fighting equipment and protected areas are operating as they should. As part of their national decision making framework, and to maintain their operational resilience, SFRS decided on the 23rd March 2020 to suspend this area of work.

5.22 As part of our Group fire safety remobilisation approach, and the reintroduction of our three FSOs, it has been agreed that our Wheatley 360 Fire Safety Team will undertake the quarterly block inspections that were previously undertaken by SFRS. This will ensure vital fire-fighting equipment, such as dry risers, are fully operational and have not been damaged. This approach commenced on 15th June 2020 and will continue until SFRS reinstate their service.

5.23 In addition to our response to SFRS block inspection suspension Board should be assured that a robust approach to fire safety in our MSF stock still continues on a daily basis:

- All MSF sites are covered by Environmental Operatives as normal (22 of our sites have 24 hour cover with a further 15 sites having 12 hour cover);
- Daily block checks, including common area inspections, are undertaken to identify and report any fire critical issues;
- Fire safety repairs have their own prioritisation category and continue to be progressed the same as they were prior to lock down;
- All Site Based Environmental Operatives are fully trained on Fire Safety; and
- Regular audits of fire safety practices are undertaken by Environmental Service Managers to ensure all fire critical processes are adhered to.

6. Key issues and conclusions

6.1 We can evidence excellent end of year performance against the agreed targets for reducing ADFs and increasing the number of HFSVs. This performance is put into even sharper context when you look at it over a two-year period during which ADFs reduced by 21% and HFSVs increased by 96%. This is outstanding performance which has been recognised by SFRS as having a significant impact on national performance.

6.2 Whilst recognising that Covid 19, and the associated lock down period, has impacted our, and our partners, ability to deliver ‘business as normal’ services priority areas have been identified and resources deployed appropriately to mitigate the risk of fire.

7. Value for money implications

7.1 There are no value for money implications arising from the content of this report.

8. Impact on financial projections

8.1 There is no impact on financial projections arising from the content of this report.

9. Legal, regulatory and charitable implications

9.1 There are no legal, regulatory and charitable implications arising from the content of this report

10. Partnership implications

10.1 Our unique partnership with SFRS has allowed us to better understand the scale, nature and location of fire risk across our communities and, in turn, to design and deliver our services to mitigate the risk of fire during the Covid 19 lock down.

10.2 Our performance in relation to reducing instances of ADFs and increasing the number of HFSVs is making a significant positive contribution to national SFRS performance figures.

11. Implementation and deployment

11.1 We have undertaken a review of our staffing resources and deployed personnel to ensure priority service areas are appropriately manned at all times

12. Equalities impact

12.1 There is no equalities impact arising from the recommendation in this report.

13. Recommendations

13.1 The Board is asked to note:

- The update on our end of year performance against agreed targets for reducing Accidental Dwelling Fires and increasing the number of Home Fire Safety Visits; and

- The Information provided within the report that evidences the measures we have introduced reflect national policy changes and ensure fire safety and customer well-being continues to be of paramount importance during the Covid 19 pandemic.

Report

To:	**Wheatley Housing Group Board**
By:	**Olga Clayton, Group Director of Housing and Care**
Approved by:	**Martin Armstrong, Group Chief Executive**
Subject:	**Annual Return on the Charter and year-end results 2019-20**
Date of Meeting:	**24 June 2020**

1. Purpose

1.1 To provide the Wheatley Housing Group Board ("the Board") with an update on the Group results for the 2019/20 Annual Return on the Charter ("ARC") for approval prior to submission. Individual Subsidiary results have been reported to the appropriate Boards.

2. Authorising Context

2.1 Under the terms of the Group Authorising Framework, the Group Board is responsible for setting the overall Group Performance Framework and approving the delivery plan for each year. Under the Group Authorise/Manage/Monitor Matrix, the Group Board has an ongoing role monitoring performance of subsidiaries across the Group against the key indicators agreed under the performance framework.

2.2 The Framework is a key mechanism for ensuring sound governance and provides:

- The basis for a continued drive to performance excellence;
- A rounded view of strategic, operational and business plan information based on core measures but recognising the diversity of each Subsidiary; and
- Strengthened Community Governance through enhanced tenant and customer scrutiny.

3. Risk Appetite and Assessment

3.1 Our agreed Group risk appetite in relation to Board Governance is "cautious". This level of risk tolerance is defined as *"Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential reward".*

Classified as Internal

4. Background

4.1 Social landlords are responsible for meeting the standards and outcomes set out in the Charter and are accountable to their tenants and customers for how well they do so. The Charter is part of the Scottish Housing Regulator's (SHR's) assessment of how these outcomes are being met.

4.2 All RSLs and Local Authority housing services were required to complete the Charter indicators and submit these by 31 May each year. We have [seven] submissions to make; one for each RSL in the Group.

4.3 Due to COVID19, this deadline has been extended to 31 July 2020. Results for all organisations will be published on the SHR website later in the year; we are awaiting confirmation of when this will be. These enable tenants and others to compare results between organisations. Benchmarking of performance will be reported to a future meeting once wider information is available.

4.4 Final verification of ARC results is still underway to ensure that all figures validate correctly for submission. In order to allow any changes to be made this report requests delegated authority to the Group Director of Housing and Care to submit the ARC results (including the Energy Efficiency Standard for Social Housing) on behalf of the organisation and to sign off any non-material changes if required subsequent to the Board meeting.

5. RSL Performance

5.1 A key aim in terms of RSL performance in our 2015-20 strategy was to demonstrate excellence by ensuring that 80% of Charter indicators are at top quartile levels by the end of the strategy period. As DGHP was a new entrant to the Group during 2019/20, the year-end position has been detailed for comparison.

5.2 In terms of performance across the Group, the following provides a summary of matters affecting all RSLs.

- **Each RSL Board** has received their own detailed report on their ARC position.

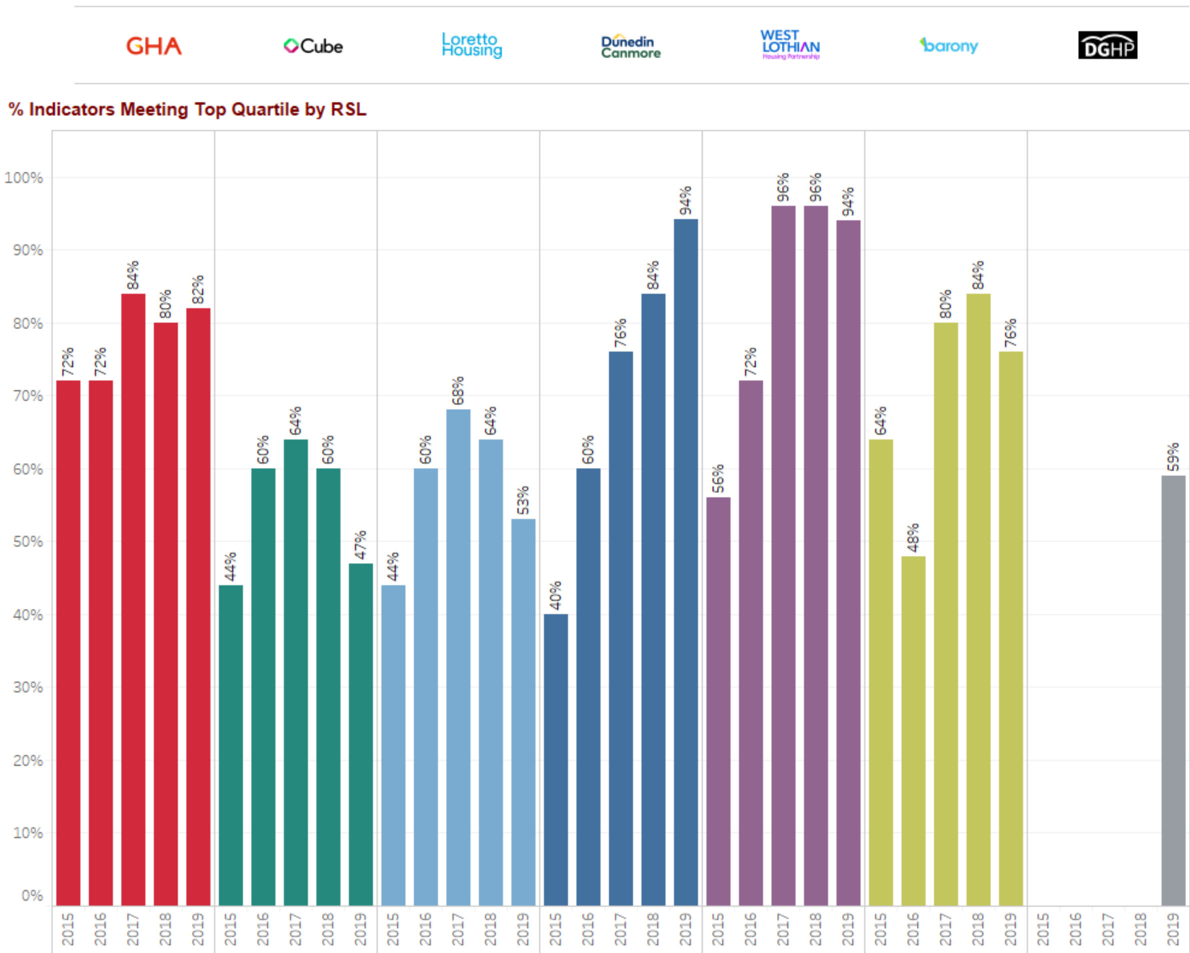
- **Customer satisfaction results**. In late 2019, we commenced an annual independent tenant satisfaction survey (by BMG Research) to measure six indicators in all Subsidiaries. This survey was carried out at the same time as the roll out of Universal Credit. Another recurring theme in the feedback relates to confusion about who has statutory responsibility for the management of the wider environment. This survey excluded DGHP as they had recently completed an independent survey prior to joining the Group.

- **Gross rent arrears** have been a challenge to all RSLs with increases in most areas. However, Dunedin Canmore has delivered exceptional performance to achieve arrears of 4.1% (better than target), while Loretto has held arrears almost stable. DGHP gross rent arrears were at 4% for their first submission as part of the Group. The main cause of increasing arrears has been the impact of customers moving onto Universal Credit and the delay in payments that results from this. The Group has continually evolved its support for tenants and its procedures for maximising income

Classified as Internal

collection. The Tenancy Support Service Plus helps customers through the complex process of applying and Housing Officers receive training and frequent updates on the processes required. The “lockdown” as a result of Covid-19 has set further challenges to income collection and in addition many more of our customers have had to move onto Universal Credit. Developments have been introduced at pace to meet the need. These include a new visual report to show Housing Officers which customers should be prioritised for conversations; targeted texting to encourage customers to talk to us and to remind them of rent payments and increased scrutiny of all aspects of rent collection. Digital payment methods such as Direct Debit and web self-service are being promoted and we are continuing to innovate, finalising testing of a new, simple way to take payments using links sent by text and/or e-mail which will be rolled out in the coming weeks. We continue to use our size and scale to lobby Scottish and UK governments and DWP on our own and in conjunction with others on the challenges that UC poses for our most vulnerable customers in order to minimise the impact it has on them. Early benchmarking data available through SHR and Housemark suggests this work is having a positive impact and that we are managing to keep our rent arrears at a lower level than others in our sector.

5.3 The graph below shows progress to top quartile for each Subsidiary over the last five years. This shows GHA, DC and WLHP met the 80% target. Barony narrowly missed the 80% target. Appendix 1 shows the final results submitted in the ARC.



5.4 The table below shows 2019/20 **customer satisfaction** indicators for all Subsidiaries. There continues to be high levels of satisfaction across all areas.

Social Housing Charter	GHA	Cube	Loretto	Dunedin Canmore	WLHP	Barony	DGHP
Overall service	88%	86%	84%	96%	95%	96%	95%
Kept informed	88%	86%	76%	95%	92%	99%	96%
Opportunities for participation	80%	80%	64%	94%	93%	99%	95%
Quality of home - existing tenants	87%	89%	89%	95%	92%	91%	93%
Repairs & Maintenance	94%	95%	93%	95%	94%	94%	92%
Neighbourhood Management	82%	80%	75%	89%	91%	97%	93%
Rent as value for money	79%	73%	77%	88%	89%	84%	90%
Factoring service	80%	41%	67%	87%	N/A	N/A	67%

5.5 **Overall satisfaction** is at exceptional levels in DCH (96%), Barony (96%), DGHP (95%) and WLHP (95%). Results are below the top quartile benchmark of 91% in GHA (88%), Cube (86%) and Loretto (84%). Following the results of the annual satisfaction survey detailed action plans have been put in place in each of these RSLs to try to improve results; these are discussed further below – albeit implementation will now be impacted by the Covid situation. DC has made significant improvement from 87% last year.

5.6 **Rent as value for money** continues to be a challenge for the three Subsidiaries in the West. GHA is at 79%, having increased from 76%, against its benchmark of 85%. Cube and Loretto achieved 73% (was 64%) and 77% (was 80%) respectively, against their benchmark of 83%. This will continue to be an area of focus for Management.

5.7 The following indicators have top quartile performance across the majority of the Group (at least four Subsidiaries):

- All repairs indicators including timescales, satisfaction and right first time;
- Satisfaction with the overall service;
- Scottish Housing Quality Standard and SAP ratings;
- Satisfaction with the quality of the existing home and when moving in;
- Medical adaptations; and
- Average days to let.

Classified as Internal

GHA

5.8 GHA's consistently high performance has continued with 82% of indicators meeting top quartile; increased from 80%. The following provides examples details where our performance continues to be above top quartile:

- Completion of emergency and non-emergency repairs;
- Tenants' satisfaction with repairs and maintenance work;
- All gas safety checks completed within statutory timescales;
- Average time to complete approved medical applications;
- Percentage of new tenancies sustained for more than a year;
- Percentage of rent due lost through properties being vacant; and
- Percentage of lettable homes that become vacant.

5.9 The main areas where we have seen a year on year reduction in performance relate to elements of customer satisfaction, although in this context it is difficult to explain the apparent contradiction between this and GHA's increasing value for money score.

5.10 The results of the GHA survey will be used to inform the future approach to tenant engagement and specific actions relate to: 'percentage of tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes' which achieved 80% against the top quartile of 83%. Despite providing a range of new options to participate within our decision making such as 'Voice of the Customer' and the North West Facebook group this indicator fell slightly from the 2018 figure of 85%.

5.11 The Group engagement strategy, which is in draft, will be brought back to the Board later in the year. It will include new initiatives such as the 'You choose challenge', which was described in our strategy, giving customers more say on how money is spent in their local areas.

5.12 GHA will also launch a campaign to engage more customers in the development of our services such as tenant inspection, including Keep Scotland Beautiful assessors, customer journey mappers, focus groups and a scrutiny panel. A full training and development programme will be put in place to enable easier participation. This will be informed by social distancing requirements and by the remobilisation plans that are being developed.

5.13 The 'percentage of existing tenants satisfied with the quality of their home' narrowly missed the top quartile of 88% at 87%. Analysis of key drivers has identified that the main influence for overall satisfaction is satisfaction with the quality of home (31% level of importance). Our investment programme has had to be put on hold due to the current restrictions, but will be reintroduced, with a specific fund targeted on tenant priorities, when government guidelines allow. A communication campaign around investment works was already in advanced stages of being deployed prior to lockdown and this will be revisited as soon as current restrictions are lifted.

Classified as Internal

5.14 The ‘percentage of annual tenants who feel that the rent for their property represents good value for money’ showed an improvement of 3% to 79% against the top quartile of 85%. The extensive programme of pop-up events held over the summer of 2019 and publicity material on what rent pays for has helped boost the results achieved. A similar approach will not be possible this summer but the new campaign to encourage tenant involvement will provide options compatible with social distancing.

Cube

5.15 The number of indicators meeting top quartile has dropped from 60% to 47%. The main areas relate to the challenges associated with letting and management of properties in less popular high rise blocks in the Wyndford estate, three of which whilst not achieving top quartile have improved on last year's figures. Cube’s high rise living strategy is a key element in addressing these, with detailed action plans to improve satisfaction.

5.16 The following provides examples where our performance continues to be above top quartile:

- Percentage of stock meeting the Scottish Housing Quality Standard (SHQS);
- Average time to complete emergency repairs (hours);
- Average time to complete non-emergency repairs (working days);
- Tenants satisfied with the quality of their home;
- Repairs completed right first time;
- Tenants satisfied with repairs or maintenance; and
- Average length of time taken to re-let properties has improved from 20.1 days to 17.26 days and is better than top quartile for the first time. Performance would have met the 17-day target, however the impact of Covid 19 caused some delays in letting properties in March.

5.17 A number of changes have been made within the team including new roles and an action plan has been developed to focus on improving operational performance.

5.18 In relation to the other indicators missing top quartile, these mainly relate to customer satisfaction, Cube is working towards improving these measures:

- Percentage of tenants satisfied with the overall service;
- Percentage tenants who feel their landlord is good at keeping them informed about their services and decisions;
- Percentage tenants satisfied with the opportunities to participate in their landlord’s decision making processes;
- Percentage tenants who feel that their rent represents good value for money; and
- Percentage owners satisfied with factoring service.

5.19 The new engagement strategy will include new initiatives and a solid basis for involving customers more strongly in our services and identifying the areas which cause most dissatisfaction. Alongside this, a detailed action plan for customer satisfaction will be developed. This will include a review of how best to achieve customer input in service development during social distancing requirements. Customers who have received our additional help throughout the Covid period have been extremely complementary.

Classified as Internal

Loretto Housing

5.20 The number of indicators meeting top quartile has dropped from 64% to 53%. The following provides examples where performance continues to be above top quartile:

- Percentage of stock meeting the Scottish Housing Quality Standard (SHQS);
- Tenants satisfied with quality of their home;
- Average time to complete emergency repairs (hours);
- Average time to complete non-emergency repairs (working days);
- Tenants satisfied with repairs or maintenance carried out in their homes; and
- Average length of time taken to re-let properties (calendar days).

5.21 Loretto has seen a reduction in 2019/20 for two indicators that previously achieved upper quartile:

- Percentage of tenants who feel their landlord is good at keeping them informed about their services and decisions, now 76% against a 93% target; and
- Percentage of tenants satisfied with the opportunities given to them to participate which has reduced to 64% against an 86% target.

5.22 In relation to the other indicators missing top quartile, a key area is around satisfaction measures. This was disappointing to see based on the number of increased engagement activities carried out last year.

5.23 The new engagement strategy will provide a solid basis for involving customers more strongly in our services and identifying the areas which cause most dissatisfaction. Customers who have received additional help throughout the Covid period have been extremely complimentary. However, there will be customers who have not needed additional support but who do feel the impact of the suspension of repairs which are not life and limb. The focus has been on ensuring good communication so that they understand the reasons for this suspension. The new engagement strategy will develop options that allow customers to be involved while adhering to social distancing requirements.

5.24 In addition, ongoing action will continue in relation to improving operational performance in relation to areas such as gross rent arrears, lettable homes that become vacant and percentage of rent due lost through properties being empty.

Dunedin Canmore Housing

5.25 Dunedin Canmore has shown strong and continuous improvement over the duration of the Investing in our Futures strategy, delivering sector-leading performance. Top quartile performance has improved from 84% to 94% in 2019/20. This improvement is mainly due to improved customer satisfaction results.

Classified as Internal

5.26 Some of the key areas where performance continues to be above top quartile include:

- All customer satisfaction indicators;
- Percentage of stock meeting the Scottish Housing Quality Standard (SHQS);
- Average time to complete emergency repairs (hours);
- Average time to complete non-emergency repairs (working days); and
- Average length of time taken to re-let properties (calendar days).

5.27 Improved customer satisfaction results have been achieved through a focused action plan to better understand customers. This was presented to the DC Board in March 2019. It included a range of locality events which identified specific issues which concerned customers. These have been addressed through, for example, altering investment plans to tackle concerns and creating community events which have built the sense of neighbourhood and cohesion.

5.28 A new joint performance framework with Neighbourhood Environmental Services has created closer working relationships with housing officers and with customers. Training has been carried out by Keep Scotland Beautiful to encourage and equip customers to take part in the evaluation of their neighbourhoods.

5.29 Gross rent arrears continue to be a challenge as the number of customers moving on to Universal Credit increases. Many of these customers have found the process complex to negotiate and have felt the impact of the delay in first payments. This will continue to be an area of focus with the dedication of the housing team, wrap around services, money advice and tenancy sustainment.

WLHP

5.30 WLHP continues to have outstanding performance with 94% of indicators at top quartile performance. The following provides examples where our performance continues to be above top quartile:

- Performance in relations to completion of emergency and non-emergency repairs;
- All customer satisfaction indicators (except one which missed top quartile by 1%);
- All gas safety checks completed within statutory timescales;
- Average time to complete approved medical applications;
- Percentage of new tenancies sustained for more than a year;
- Percentage of rent due lost through properties being vacant; and
- Percentage of lettable homes that become vacant.

Barony

5.31 Barony has shown improvement over the duration of the Investing in our Futures strategy. Going forward, WLHP and Dunedin Canmore will take our performance results into account in shaping their services to customers

5.32 Barony narrowly missed the strategic target 80% of ARC indicators at top quartile level as set out in the 2015-2020 "Investing in our Futures" strategy, with 76% of our indicators in the top quartile. The figures are impacted by the nature of our supported accommodation, the allocation process for this and the re-provisioning programme designed to promote independent living and support the needs of the customer.

5.33 The following provides examples where performance continues to meet or exceed top quartile and/or target:

- All customer satisfaction indicators;
- Percentage of stock meeting the Scottish Housing Quality Standard (SHQS);
- Average time to complete emergency repairs (hours); and
- Average time to complete non-emergency repairs (working days).

5.28 In relation to the other indicators missing top quartile, Barony are working towards improving operational performance in relation to areas such as length of time taken to re-let properties, lettable homes that become vacant and percentage of rent due lost through properties being empty.

Dumfries and Galloway Housing Partnership

5.29 As DGHP joined the Group in 2019/20, prior year comparators are not available. 59% of indicators meet top quartile levels.

5.30 The following provides examples where performance continues to be above top quartile and target relate to:

- tenants satisfied with overall service;
- tenants who feel their landlord is good at keeping them informed;
- average time to complete emergency repairs (hours);
- average time to complete non-emergency repairs (working days);
- tenancy offers refused during the year; and
- gross rent arrears.

5.34 Indicators which are not currently meeting top quartile include those relating to SHQS, repairs right first time, turnover and rent arrears. Actions are now in place to help improve the performance in these areas. These include:

- An investment programme targeted to improve the Scottish Housing Quality Standard;
- Improvements being delivered following the TUPE transfer of the new in-house repairs service;
- An increase in resources for front line housing officers; and
- Wrap around tenancy support as part of the transformation programme to help improve tenancy sustainment.

Classified as Internal

6 Value for money implications

6.1 Value for Money scores are noted above.

7 Impact on financial projections

7.1 No implications.

8 Legal, regulatory, and charitable implications

8.1 Registered Social Landlords are required to provide an Annual Return on the Charter to the Scottish Housing Regulator. The Regulator has agreed, that in the case of Wheatley this is submitted for each of the stock owning Subsidiaries and not for the Group as a whole. The key indicators within this return are included in monthly performance reporting. RSL Subsidiary Boards approve the final return and this information is included in the year end performance report to the Wheatley Group Board. RSLs are also required to involve tenants in the scrutiny of performance (this is done through our Tenant Scrutiny Panel) and to report to tenants annually.

9 Partnership implications

9.1 Not applicable

10 Implementation and deployment

10.1 Not required.

11 Equalities impact

11.1 There is no direct equalities impact from this report.

12 Recommendations

12.1 The Board is asked to note the contents of this report.

List of Appendices

Appendix 1: 2019/20 Draft ARC results

Classified as Internal

GHA Charter Indicators	2018/19 Results	2019/20 Draft Results	19/20 Target	TQ
ARC survey questions measured annually No new factoring satisfaction survey in 2019/20				
01. % Annual tenants satisfied with the overall service	90%	88%	90%	88%
02. % Annual tenants who feel their landlord is good at keeping them informed about their services and decisions	92%	88%	93%	86%
03. % Complaints responded to in full at Stage 1 and the % complaints responded to in full at Stage 2 - Overall	New	97.13%	Baseline Year	
04. Average time in working days for a full response at Stage 1 and the average time in working days for a full response at Stage 2 - Overall	New	5.09	Baseline Year	
05. % Annual tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes	85%	80%	87%	83%
06. % Stock meeting the Scottish Housing Quality Standard (SHQS).	99.22%	99.36%	98.3%	96.25%
07. % Annual existing tenants satisfied with the quality of their home	89%	87%	89%	88%
08. Average time to complete emergency repairs (hours)	2.79	2.88	3	4.04
09. Average time to complete non-emergency repairs (working days)	5.68	5.48	5.5	8.49
10. % Reactive repairs completed right first time	96.01%	95.93%	97.50%	95.05%
11. Number of times in the reporting year that you did not meet your statutory obligation to complete a gas safety check within 12 months of a gas appliance being fitted or its last check.	New	0	0	
12.% Tenants satisfied with repairs or maintenance carried out in last 12 months	94%	94%	94%	94%
13. % Annual tenants satisfied with the landlord's contribution to the management of the neighbourhood they live in.	New	82%	Baseline Year	
14. % Tenancy offers refused during the year	32%	32%	21%	32%
15. % Anti-social behaviour cases reported in the last year which were resolved.	New	100%	Baseline Year	
16. % New tenancies sustained for more than a year - overall	90.87%	90.35%	93%	89.67%
17. % Lettable houses that became vacant	8.24%	8.38%	8.50%	8.41%
18. % Rent due lost through properties being empty	0.36%	0.43%	0.50%	0.72%
19. Number of households currently waiting for adaptations to their home.	New	93	Contextual	
20. Total cost of adaptations completed in the year by source of funding (£).	New	£1,740,296	Contextual	
21. Average time to complete approved applications for medical adaptations (calendar days)	18.95	17.60	25	30.71
22. % Court actions initiated which resulted in eviction - overall	59.39%	29.70%	25%	
23a. % Referrals under Section 5, and other referrals for homeless households made by the local authority, that resulted in an offer	New	49.47%	Baseline Year	
23b. % Offers made to LA Section 5 and other referrals for homeless households that result in a let.	New	68.54%	Baseline Year	
25. % Annual tenants who feel that the rent for their property represents good value for money	76%	79%	83%	85%
26. Rent collected as % of total rent due	99.01%	98.34%	99.70%	
27. % Gross rent arrears	3.9%	4.8%	4.0%	4.8%
28. Average annual management fee per factored property.	£148.13	£184.53	Contextual	
29. % Annual owners satisfied with the factoring service	60%	60%	72%	
30. Average length of time taken to re-let properties (calendar days)	15.79	15.44	14	27.67
Meeting Top Quartile				82%

Classified as Internal

Cube Charter Indicators	2018/19 Results	2019/20 Draft Results	19/20 Target	TQ
ARC survey questions measured annually No new factoring satisfaction survey in 2019/20				
01. % Annual tenants satisfied with the overall service	89%	86%	91%	91%
02. % Annual tenants who feel their landlord is good at keeping them informed about their services and decisions	91%	86%	93%	93%
03. % Complaints responded to in full at Stage 1 and the % complaints responded to in full at Stage 2 - Overall	New	100%	Baseline Year	
04. Average time in working days for a full response at Stage 1 and the average time in working days for a full response at Stage 2 - Overall	New	4.57	Baseline Year	
05. % Annual tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes	89%	80%	90%	86%
06. % Stock meeting the Scottish Housing Quality Standard (SHQS).	98.81%	99.07%	98.2%	97.28%
07. % Annual existing tenants satisfied with the quality of their home	89%	89%	90%	89%
08. Average time to complete emergency repairs (hours)	2.46	2.95	3	4.04
09. Average time to complete non-emergency repairs (working days)	5.1	5.41	5.5	8.49
10. % Reactive repairs completed right first time	96.58%	96.75%	97.50%	94.92%
11. Number of times in the reporting year that you did not meet your statutory obligation to complete a gas safety check within 12 months of a gas appliance being fitted or its last check.	New	0	0	
12.% Tenants satisfied with repairs or maintenance carried out in last 12 months	94%	95%	93%	92%
13. % Annual tenants satisfied with the landlord's contribution to the management of the neighbourhood they live in.	New	80.35%	Baseline Year	
14. % Tenancy offers refused during the year	35%	46%	25%	22%
15. % Anti-social behaviour cases reported in the last year which were resolved.	New	100%	Baseline Year	
16. % New tenancies sustained for more than a year - overall	87.19%	88.02%	92.5%	92.44%
17. % Lettable houses that became vacant	10.88%	10.34%	9.00%	7.33%
18. % Rent due lost through properties being empty	0.56%	0.50%	0.44%	0.44%
19. Number of households currently waiting for adaptations to their home.	New	0	Contextual	
20. Total cost of adaptations completed in the year by source of funding (£).	New	£110,403	Contextual	
21. Average time to complete approved applications for medical adaptations (calendar days)	21.38	15.67	25	36.34
22. % Court actions initiated which resulted in eviction - overall	52.63%	60%	25%	
23a. % Referrals under Section 5, and other referrals for homeless households made by the local authority, that resulted in an offer	New	49.97%	Baseline Year	
23b. % Offers made to LA Section 5 and other referrals for homeless households that result in a let.	New	69.53%	Baseline Year	
25. % Annual tenants who feel that the rent for their property represents good value for money	63.59%	73.35%	83%	83%
26. Rent collected as % of total rent due	98.78%	98.52%	99.20%	
27. % Gross rent arrears	4.9%	5.2%	4.6%	3.5%
28. Average annual management fee per factored property.	£146.79	£184.22	Contextual	
29. % Annual owners satisfied with the factoring service	40.91%	40.91%	65%	
30. Average length of time taken to re-let properties (calendar days)	20.1	17.26	17.00	17.31
Meeting Top Quartile				47%

Classified as Internal

Loretto Housing Charter Indicators	2018/19 Results	2019/20 Draft Results	19/20 Target	TQ
ARC survey questions measured annually No new factoring satisfaction survey in 2019/20				
01. % Annual tenants satisfied with the overall service	89%	84%	91%	91%
02. % Annual tenants who feel their landlord is good at keeping them informed about their services and decisions	95%	76%	93%	93%
03. % Complaints responded to in full at Stage 1 and the % complaints responded to in full at Stage 2 - Overall	New	97.18%	Baseline Year	
04. Average time in working days for a full response at Stage 1 and the average time in working days for a full response at Stage 2 - Overall	New	4.22	Baseline Year	
05. % Annual tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes	92%	64%	90%	86%
06. % Stock meeting the Scottish Housing Quality Standard (SHQS).	100%	100%	99.75%	97.28%
07. % Annual existing tenants satisfied with the quality of their home	92%	89%	90%	89%
08. Average time to complete emergency repairs (hours)	2.97	3.02	3	4.04
09. Average time to complete non-emergency repairs (working days)	4.11	4.90	5.5	8.49
10. % Reactive repairs completed right first time	96.44%	96.44%	97%	94.92%
11. Number of times in the reporting year that you did not meet your statutory obligation to complete a gas safety check within 12 months of a gas appliance being fitted or its last check.	New	1	0	
12.% Tenants satisfied with repairs or maintenance carried out in last 12 months	91%	93%	93%	92%
13. % Annual tenants satisfied with the landlord's contribution to the management of the neighbourhood they live in.	New	75%	Baseline Year	
14. % Tenancy offers refused during the year	30%	16%	21%	22%
15. % Anti-social behaviour cases reported in the last year which were resolved.	New	100%	Baseline Year	
16. % New tenancies sustained for more than a year - overall	90.85%	90.59%	92.5%	92.44%
17. % Lettable houses that became vacant	8.20%	10.90%	8%	7.33%
18. % Rent due lost through properties being empty	0.48%	0.55%	0.44%	0.44%
19. Number of households currently waiting for adaptations to their home.	New	4	Contextual	
20. Total cost of adaptations completed in the year by source of funding (£).	New	£122,145	Contextual	
21. Average time to complete approved applications for medical adaptations (calendar days)	18.50	21.68	25	36.34
22. % Court actions initiated which resulted in eviction - overall	88.89%	61.54%	25%	
23a. % Referrals under Section 5, and other referrals for homeless households made by the local authority, that resulted in an offer	New	49.50%	Baseline Year	
23b. % Offers made to LA Section 5 and other referrals for homeless households that result in a let.	New	68.83%	Baseline Year	
25. % Annual tenants who feel that the rent for their property represents good value for money	80%	77%	83%	83%
26. Rent collected as % of total rent due	98.84%	98.55%	99.20%	
27. % Gross rent arrears	5.0%	5.1%	4.6%	3.5%
28. Average annual management fee per factored property.	£148.00	£184.51	Contextual	
29. % Annual owners satisfied with the factoring service	67%	67%	72%	
30. Average length of time taken to re-let properties (calendar days)	12.55	14.34	14	17.31
Meeting Top Quartile				53%

Classified as Internal

Dunedin Canmore Charter Indicators	2018/19 Results	2019/20 Draft Results	19/20 Target	TQ
ARC survey questions measured annually No new factoring satisfaction survey in 2019/20 - DC factoring survey is 2017/18				
01. % Annual tenants satisfied with the overall service	87%	96%	91%	91%
02. % Annual tenants who feel their landlord is good at keeping them informed about their services and decisions	93%	95%	93%	93%
03. % Complaints responded to in full at Stage 1 and the % complaints responded to in full at Stage 2 - Overall	New	98.49%	Baseline Year	
04. Average time in working days for a full response at Stage 1 and the average time in working days for a full response at Stage 2 - Overall	New	4.88	Baseline Year	
05. % Annual tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes	85%	94%	90%	86%
06. % Stock meeting the Scottish Housing Quality Standard (SHQS).	99.72%	99.77%	99.64%	97.28%
07. % Annual existing tenants satisfied with the quality of their home	89%	95%	90%	89%
08. Average time to complete emergency repairs (hours)	2.62	1.76	3	4.04
09. Average time to complete non-emergency repairs (working days)	5.1	5.09	5.5	8.49
10. % Reactive repairs completed right first time	96.93%	96.82%	95%	94.92%
11. Number of times in the reporting year that you did not meet your statutory obligation to complete a gas safety check within 12 months of	New	0	0	
12.% Tenants satisfied with repairs or maintenance carried out in last 12 months	93%	95%	93%	92%
13. % Annual tenants satisfied with the landlord's contribution to the management of the neighbourhood they live in.	New	89%	Baseline Year	
14. % Tenancy offers refused during the year	12%	13%	21%	22%
15. % Anti-social behaviour cases reported in the last year which were resolved.	New	100%	Baseline Year	
16. % New tenancies sustained for more than a year - overall	95.45%	93.79%	93.0%	92.44%
17. % Lettable houses that became vacant	6.82%	7.29%	8%	7.33%
18. % Rent due lost through properties being empty	0.24%	0.39%	0.44%	0.44%
19. Number of households currently waiting for adaptations to their home.	New	6	Contextual	
20. Total cost of adaptations completed in the year by source of funding (£).	New	£106,039	Contextual	
21. Average time to complete approved applications for medical adaptations (calendar days)	7.56	8.26	25	36.34
22. % Court actions initiated which resulted in eviction - overall	82.61%	35%	25%	
23a. % Referrals under Section 5, and other referrals for homeless households made by the local authority, that resulted in an offer	New	85.71%	Baseline Year	
23b. % Offers made to LA Section 5 and other referrals for homeless households that result in a let.	New	87.04%	Baseline Year	
25. % Annual tenants who feel that the rent for their property represents good value for money	85%	88%	83%	83%
26. Rent collected as % of total rent due	99.53%	99.18%	99.70%	
27. % Gross rent arrears	4.3%	4.1%	4.3%	3.5%
28. Average annual management fee per factored property.	£162.83	£181.42	Contextual	
29. % Annual owners satisfied with the factoring service	87%	87%	Not set	
30. Average length of time taken to re-let properties (calendar days)	10.15	9.68	12	17.31
Meeting Top Quartile				94%

Classified as Internal

WLHP Charter Indicators	2018/19 Results	2019/20 Draft Results	19/20 Target	TQ
ARC survey questions measured annually				
01. % Annual tenants satisfied with the overall service	98%	95%	91%	91%
02. % Annual tenants who feel their landlord is good at keeping them informed about their services and decisions	100%	92%	93%	93%
03. % Complaints responded to in full at Stage 1 and the % complaints responded to in full at Stage 2 - Overall	New	91.67%	Baseline Year	
04. Average time in working days for a full response at Stage 1 and the average time in working days for a full response at Stage 2 - Overall	New	4.45	Baseline Year	
05. % Annual tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes	100%	93%	90%	86%
06. % Stock meeting the Scottish Housing Quality Standard (SHQS).	100%	100%	100%	97.28%
07. % Annual existing tenants satisfied with the quality of their home	93%	92%	90%	89%
08. Average time to complete emergency repairs (hours)	2.47	1.90	3	4.04
09. Average time to complete non-emergency repairs (working days)	4.86	4.92	5.5	8.49
10. % Reactive repairs completed right first time	95.49%	96.42%	95%	94.92%
11. Number of times in the reporting year that you did not meet your statutory obligation to complete a gas safety check within 12 months of a gas appliance being fitted or its last check.	New	0	0	
12.% Tenants satisfied with repairs or maintenance carried out in last 12 months	98%	94%	93%	92%
13. % Annual tenants satisfied with the landlord's contribution to the management of the neighbourhood they live in.	New	91%	Baseline Year	
14. % Tenancy offers refused during the year	23%	13%	21%	22%
15. % Anti-social behaviour cases reported in the last year which were resolved.	New	100%	Baseline Year	
16. % New tenancies sustained for more than a year - overall	94.73%	98.39%	93%	92.44%
17. % Lettable houses that became vacant	2.06%	5.59%	7.33%	7.33%
18. % Rent due lost through properties being empty	0.02%	0.03%	0.44%	0.44%
19. Number of households currently waiting for adaptations to their home.	New	0	Contextual	
20. Total cost of adaptations completed in the year by source of funding (£).	New	£20,600	Contextual	
21. Average time to complete approved applications for medical adaptations (calendar days)	10.62	14.33	25	36.34
22. % Court actions initiated which resulted in eviction - overall	50%	33%	25%	
23a. % Referrals under Section 5, and other referrals for homeless households made by the local authority, that resulted in an offer	New	100%	Baseline Year	
23b. % Offers made to LA Section 5 and other referrals for homeless households that result in a let.	New	100%	Baseline Year	
25. % Annual tenants who feel that the rent for their property represents good value for money	84%	89%	83%	83%
26. Rent collected as % of total rent due	99.78%	98.95%	99.70%	
27. % Gross rent arrears	1.7%	2.3%	2.3%	3.5%
28. Average annual management fee per factored property.	N/A	N/A	N/A	
29. % Annual owners satisfied with the factoring service	N/A	N/A	N/A	
30. Average length of time taken to re-let properties (calendar days)	2.14	1.54	6.50	17.31
Meeting Top Quartile				94%

Classified as Internal

Barony Charter Indicators	2018/19 Results	2019/20 Draft Results	19/20 Target	TQ
ARC survey questions measured annually				
01. % Annual tenants satisfied with the overall service	96%	96%	91%	91%
02. % Annual tenants who feel their landlord is good at keeping them informed about their services and decisions	99%	99%	93%	93%
03. % Complaints responded to in full at Stage 1 and the % complaints responded to in full at Stage 2 - Overall	New	94.12%	Baseline Year	
04. Average time in working days for a full response at Stage 1 and the average time in working days for a full response at Stage 2 - Overall	New	4.25	Baseline Year	
05. % Annual tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes	99%	99%	90%	86%
06. % Stock meeting the Scottish Housing Quality Standard (SHQS).	100%	100%	100%	97.28%
07. % Annual existing tenants satisfied with the quality of their home	91%	91%	90%	89%
08. Average time to complete emergency repairs (hours)	2.32	1.93	3	4.04
09. Average time to complete non-emergency repairs (working days)	5.41	4.95	5.5	8.49
10. % Reactive repairs completed right first time	95.47%	96.38%	95%	94.92%
11. Number of times in the reporting year that you did not meet your statutory obligation to complete a gas safety check within 12 months of a gas appliance being fitted or its last check.	New	0	0	
12.% Tenants satisfied with repairs or maintenance carried out in last 12 months	92%	94%	93%	92%
13. % Annual tenants satisfied with the landlord's contribution to the management of the neighbourhood they live in.	New	97%	Baseline Year	
14. % Tenancy offers refused during the year	16%	0%	21%	22%
15. % Anti-social behaviour cases reported in the last year which were resolved.	New	100%	Baseline Year	
16. % New tenancies sustained for more than a year - overall	96.88%	88.46%	93%	92.44%
17. % Lettable houses that became vacant	5.40%	10.11%	7.33%	7.33%
18. % Rent due lost through properties being empty	2.50%	1.23%	1.90%	0.44%
19. Number of households currently waiting for adaptations to their home.	New	1	Contextual	
20. Total cost of adaptations completed in the year by source of funding (£).	New	£23,880	Contextual	
21. Average time to complete approved applications for medical adaptations (calendar days)	10.56	11.39	25	36.34
22. % Court actions initiated which resulted in eviction - overall	0%	100%	25%	
23a. % Referrals under Section 5, and other referrals for homeless households made by the local authority, that resulted in an offer	New	100.00%	Baseline Year	
23b. % Offers made to LA Section 5 and other referrals for homeless households that result in a let.	New	100%	Baseline Year	
25. % Annual tenants who feel that the rent for their property represents good value for money	84%	84%	83%	83%
26. Rent collected as % of total rent due	101.05%	101.53%	99.70%	
27. % Gross rent arrears	2.4%	3.2%	3.0%	3.5%
28. Average annual management fee per factored property.	N/A	N/A	N/A	
29. % Annual owners satisfied with the factoring service	N/A	N/A	N/A	
30. Average length of time taken to re-let properties (calendar days)	25.73	31.24	17	17.31
Meeting Top Quartile				76%

Classified as Internal

DGHP Charter Indicators	2018/19 Results	2019/20 Draft Results	19/20 Target	TQ
ARC survey questions measured annually				
01. % Annual tenants satisfied with the overall service	95%	95%	95%	88%
02. % Annual tenants who feel their landlord is good at keeping them informed about their services and decisions	96%	96%	95%	86%
03. % Complaints responded to in full at Stage 1 and the % complaints responded to in full at Stage 2 - Overall	New	100%	Baseline Year	
04. Average time in working days for a full response at Stage 1 and the average time in working days for a full response at Stage 2 - Overall	New	4.34	Baseline Year	
05. % Annual tenants satisfied with the opportunities given to them to participate in their landlord's decision making processes	95%	95%	95%	83%
06. % Stock meeting the Scottish Housing Quality Standard (SHQS).	66.22%	80.80%	100%	96.25%
07. % Annual existing tenants satisfied with the quality of their home	94%	93%	95%	88%
08. Average time to complete emergency repairs (hours)	2.33	2.27	2.5	4.04
09. Average time to complete non-emergency repairs (working days)	7.83	8.44	6.5	8.49
10. % Reactive repairs completed right first time	93.01%	83.47%	92%	95.05%
11. Number of times in the reporting year that you did not meet your statutory obligation to complete a gas safety check within 12 months of	New	0	0	
12.% Tenants satisfied with repairs or maintenance carried out in last 12 months	92%	92%	95%	94%
13. % Annual tenants satisfied with the landlord's contribution to the management of the neighbourhood they live in.	New	93%	Baseline Year	
14. % Tenancy offers refused during the year	27%	28%	20%	32%
15. % Anti-social behaviour cases reported in the last year which were resolved.	New	89.81%	Baseline Year	
16. % New tenancies sustained for more than a year - overall	86.82%	85.72%	86%	89.67%
17. % Lettable houses that became vacant	9.16%	9.84%	9%	8.41%
18. % Rent due lost through properties being empty	0.76%	0.77%	0.75%	0.72%
19. Number of households currently waiting for adaptations to their home.	New	28	Contextual	
20. Total cost of adaptations completed in the year by source of funding (£).	New	£556,947.00	Contextual	
21. Average time to complete approved applications for medical adaptations (calendar days)	32.96	18.49	31	30.71
22. % Court actions initiated which resulted in eviction - overall	18.60%	13.38%	16%	
23a. % Referrals under Section 5, and other referrals for homeless households made by the local authority, that resulted in an offer	New	90.70%	Baseline Year	
23b. % Offers made to LA Section 5 and other referrals for homeless households that result in a let.	New	83.03%	Baseline Year	
25. % Annual tenants who feel that the rent for their property represents good value for money	83%	90%	84%	85%
26. Rent collected as % of total rent due	99.64%	99.47%	100%	
27. % Gross rent arrears	3.4%	4.0%	3.6%	4.8%
28. Average annual management fee per factored property.	£95.85	£120.15	Contextual	
29. % Annual owners satisfied with the factoring service	69%	67%	75%	
30. Average length of time taken to re-let properties (calendar days)	29.95	28.23	20	27.67
Meeting Top Quartile				59%

Classified as Internal

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 June 2020

1. Purpose

1.1 The purpose of this report is to:

- note the liquidity position of the Group as at 31 May 2020;
- seek the Board's approval of the updated Treasury Management Policy ("TMP"); and
- seek approval for submission of the loan portfolio return to the Scottish Housing Regulator.

2. Authorising context

2.1 Under the Group Standing Orders the Group Board is responsible for approving Group policies.

2.2 Under the terms of the Intra-Group Agreement ("IGA") between the Wheatley Group and its RSL subsidiaries, as well as the Group Authorise, Manage, Monitor Matrix, the Group Board is responsible for the on-going monitoring of performance against agreed targets. This includes the on-going performance of its finances. Under the IGA all subsidiaries must implement any Group policies.

2.3 The Group Board is required to approve the overall Group-wide loan portfolio return to the Scottish Housing Regulator ("SHR"). Our partner RSL Boards will also have to approve their own returns in the coming weeks ahead of the submission deadline of 31 July.

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 12 months to strengthen our funding position.

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4. Background

4.1 This report sets out the cash availability as at the end of March, April and May 2020 to provide comfort to the Board that we are in a strong position at this time, with no requirement to raise new or replace existing committed terms until 2023/24 (when the £100m HSBC Revolving Credit Facility is due to expire).

4.2 The Treasury Management Policy ("TMP") has been updated to reflect the changes made to the financing agreements across Group entities as well as the external market changes which have occurred since it was last amended in 2015.

4.3 The SHR loan portfolio return is an annual information requirement from the regulator – the submission deadline for which was deferred by two months to 31 July 2020 as a result of the business interruption caused by Covid-19.

5. Discussion

(i) Liquidity update

5.1 We have four main sources of liquidity:

a) Cash-at-hand and/or on term deposits
b) Committed Revolving Credit Facilities ("RCFs") and/or overdraft facilities
c) Undrawn committed term facilities (£28m remains to be drawn from EIB)
d) Bank of England CCFF scheme

5.2 The table below shows the full Group position (WFL1, WFL2 and DGHP):

[table redacted]

5.3 Our liquidity availability will be boosted as a result of the Bank of England ('BOE') CCFF scheme. We have completed the required internal governance and provided the BOE with the parental guarantee across the WFL1 RSLs (excluding Barony which is in the process of being wound-up). In our initial eligibility enquiries, the BOE indicated that they anticipate our limit to be £150m, which will be additional to the committed RCFs, cash-at-hand or in term deposits, and undrawn term facilities which are set out in the table in paragraph 5.2. We await formal confirmation of the total availability from the CCFF scheme as the BOE and HM Treasury work through our formal application (all documents were sent to the BOE the week commencing 15 June 2020).

(ii) Revised draft Treasury Management Policy ("TMP")

5.4 The TMP was last updated in 2015. A 'clean' version of the TMP is included in Appendix 1 to this report, with a 'redline' version which reflects all changes between the 2015 and 2020 versions in Appendix 2.

5.5 Notwithstanding the formatting changes reflected in the redline version, the key areas which have been changed and/or are introduced for the first time in the 2020 version of the TMP are set out below:

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(a) Permits money to be borrowed on commercial terms from government agencies (i.e. from Allia, SNIB and CCFF scheme);

(b) Reflects the changes to the WFL2 funding which occurred as a result of the Scottish Widows refinancing in November 2018;

(c) Specifically mentions currency risk (2015 version was silent on this matter as, at that time, the sector did not contemplate using overseas investors to raise capital. US Private Placements are now a common form of fund-raising);

(d) Expands upon the management of our key relationship with S&P and sets out the specific risks associated with credit rating downgrade(s);

(e) References investor relations reporting, including ESG (Environmental, Social & Governance) reporting;

(f) Changes the maximum and minimum percentage ranges for the fixed and floating date debt; maximum is increased from 50% – 70% to 75% – 95% and minimum range decreased from 30% – 50% to 5% to 25%. The report expands upon the primary reason for this change which reflects the reality of our funding mix. The vast majority of our term debt is on a fixed rate basis, resulting in an average of 95% of drawn debt being subject to fixed rates. Unless and until we draw down RCFs to fund the development programme (currently on pause due to Covid-19), we will be unable to bring down the fixed rate percentage from this level.

(g) Does not permit investing in Money Market Funds with Variable NAV (Net Asset Value). These are funds where the return of the principal invested is not guaranteed due to market volatility. While VNAV funds may yield a marginally higher return than Constant NAV funds (where the principal is guaranteed), the risk of a loss on the capital sum is not acceptable. The 2015 TMP did not make the differentiation between constant NAV and variable NAV funds.

(h) Increases the maximum size of deposits permitted with a single counterparty bank. The 2015 version referenced a maximum percentage and absolute amount. Given the growth in the balance sheet, the absolute amounts no longer made sense *vis a vis* the percentage limits); and

(i) Reflects our reporting obligations under the SHR Annual Assurance Statement which was introduced in April 2019.

5.6 The TMP makes clear that any new funding, whether at WFL1, WFL2, DGHP or for any RSL on a bilateral agreement (such as new lending with Allia) is subject to the approval of the Group Board, prior to the relevant subsidiary Board approvals.

5.7 The draft TMP has been reviewed by independent treasury risk consultants, Chatham Financial Europe (formerly, JC Rathbone Associates), and they have confirmed it is comprehensive and meets best practice for the sector.

(iii) Scottish Housing Regulator – loan portfolio return

5.8 The Scottish Housing Regulator requires the loans held by Wheatley Funding No. 1 Ltd ("WFL1") on behalf of the RSL Borrower Group, any direct loans to the RSL Borrower Group, and related security information to be submitted through the loan portfolio submission of the parent company, Wheatley Housing

Group Ltd. The submission report attached at appendix 3 contains the details which will be transferred to the SHR's portal at the point this becomes open for submission, showing both the information and the layout.

5.9 The submission report contains the information relating to the loans held by, and the intragroup funding from, Wheatley Funding No. 1 Limited, this information being factual information on the debt position as at the financial year end date of 31 March 2020.

5.10 The key information contained within the report is that, as at 31 March 2020:
- Facilities are the total amount of committed debt available to or drawn by the RSL Borrower Group (£1.5bn)
- Loan details contain the individual loan amounts borrowed by WFL1 under the facilities, along with lending details and the relevant rates (£1.18bn)
- Intra-group Lending are the amounts on-lent to the individual RSLs from the loans drawn under WFL1(£1.15bn)
- Covenants are as set under each facility with the most recent levels reported to the funders under the facilities detailed (all covenants met)
- Security contains the number of housing units of the RSL Borrower Group used as security (49,514) against the current facilities, and the number of units unencumbered (2,829) available to support further debt facilities. The value of the secured units is £2.0bn, which includes £3.93m secured but not allocated to a funder. (31 March 2020 valuation)

5.11 Syndicate facilities were amended on 02 April 2020 and, in line with Regulator guidance, an "in-year" return will be submitted with all funding details updated. The Regulator will allow the completion of the in-year return approximately one month after the submission of the annual return (due end July 2020). In the interim, we will provide the Regulator with the details of the facility amendments, which were completed shortly after the financial year end, by email. The SHR is aware we completed these amendments in early April.

6. Key issues and conclusions

6.1 The liquidity position remains robust and will be further enhanced following formal approval under the CCFF scheme. We anticipate investing excess funds on term deposit products on maturities of up to 6 months, complying with the investment rules set out in the 2020 policy.

6.2 The 2020 TMP reflects both internal and external funding, risk and regulatory changes which have taken place since 2015. External consultants have concluded that the updated version is comprehensive and represents market best practice.

6.3 The loan portfolio return has been updated to reflect the funding position in WFL1 at financial year-end (31 March 2020). As part of the submission to the Scottish Housing Regulator, the Chair of the Board and Director/Chief Executive are required to confirm the following:

"*I hereby certify for and on behalf of the RSL that the information provided in this return is, to the best of my knowledge and belief, an accurate and fair representation of the affairs of the RSL.*"

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7. Value for money implications

7.1 Not applicable.

8. Impact on financial projections

8.1 As noted above.

9. Legal, regulatory and charitable implications

9.1 There are no legal or charitable implications.

9.2 Failure to submit the loan portfolio return to the SHR could result in reputational damage.

10. Partnership implications

10.1 The CCFF will be in the name of Wheatley Funding No.1 Limited, therefore the liquidity provided by this facility will be for the direct benefit of the RSL Borrower Group only (GHA, Cube, Loretto, DCH and WLHP).

10.2 The TMP covers all Group RSLs and Lowther/YourPlace. Treasury is a centralised function of the Group and manages the funding, investment and banking relationships on behalf of all group entities.

10.3 A loan portfolio return is required to be submitted by 31 July 2020 to the SHR for all Group RSLs (GHA, Loretto, Cube, DCH, Barony, WLHP, DGHP). These have been prepared and are to be approved at subsidiary board level in their forthcoming meetings before they are submitted to the SHR portal. This is in addition to the submission of the WFL1 loan portfolio return and will be managed by the centralised treasury function on behalf of each RSL.

11. Implementation and deployment

11.1 The 2020 TMP will take effect following the approval from the Board.

11.2 The WFL1 loan portfolio return will be submitted via the SHR portal prior to the 31 July 2020 deadline.

12. Equalities impact

12.1 Not applicable.

13. Recommendations

13.1 The Board is requested to:

1) Note the liquidity position for the Group;
2) Approve the revised draft Treasury Management Policy; and
3) approve the submission of the loan portfolio return to the Scottish Housing Regulator.

List of Appendices

Appendix 1 – Draft Treasury Management Policy ‘clean’ version
Appendix 2 – Amended 2015 Treasury Management Policy ‘redline’ version
Appendix 3 – [redacted]

Wheatley Housing Group

Treasury Management Policy

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Contents

ABBREVIATIONS

The following abbreviations are used in this report:

Care	Wheatley Care
Cube	Cube Housing Association
DCH	Dunedin Canmore Housing
DGHP	Dumfries and Galloway Housing Partnership
EIB	European Investment Bank
FRA	Forward Rate Agreement
GHA	Glasgow Housing Association
ISDA	International Swap Dealers Association
LHA	Loretto Housing Association Ltd
LHL	Lowther Homes Ltd
SPV	Special Purpose Vehicle
The Group	Wheatley Housing Group
WFL1	Wheatley Funding No.1 Ltd (WFL1)
WFL2	Wheatley Funding No.2 Ltd (WFL2)
WGC	Wheatley Group Capital plc
WHG	Wheatley Housing Group
WLHP	West Lothian Housing Partnership
YourPlace	YourPlace Property Management Ltd

Classified as Internal

1. Introduction

1.1 Wheatley Housing Group

Wheatley Housing Group ("the Group") is the largest housing, community regeneration and care provider in Scotland with owned and managed housing stock of 98,000 units across eighteen local authority areas in central and south-west Scotland.

The Group provides, through its subsidiaries, an extensive range of high-quality stock and services to the social housing, mid and full-market rental sectors, as well as specialist care services and property management services.

1.2 Group Governance

Wheatley Group Board
The Wheatley Group Board is responsible for overseeing the strategic direction of the entire Group, the subsidiaries and the subsidiary Boards. It is responsible for oversight of all of our Group funding arrangements, risk management processes, and control systems.

The Wheatley Board has the ability to exercise constitutional control over its subsidiaries through provisions contained in each subsidiary's constitution.

Subsidiary Boards
Each subsidiary within the group has its own Board of Directors. The subsidiary Boards oversee the delivery of their own subsidiary strategies which contribute to the overall Group strategy. Each subsidiary must also enter into an Intra-Group Agreement with Wheatley Housing Group Limited. This Agreement governs the parent/subsidiary relationship and the various obligations on each party.

RSL Borrowing Group
With the exception of DGHP, all RSLs (GHA, Cube, WLHP, Loretto, DCH) are funded as one RSL Borrowing Group through WFL1. The RSL Borrowing Group pools all assets in a single security trust deed for funding purposes, with each RSL cross guaranteeing each other's obligations to WFL1. Care has access to a total £1m standby facility via the RSL Borrowing Group. It is intended that DGHP will join the RSL Borrowing Group in due course, and their main debt facilities (with M&G and RBS) have been structured to allow this to occur, subject to the lenders' final credit approval along with all internal governance approvals from the WHG Board and all of the RSL Subsidiary Boards, and WFL1 Board.

Commercial Activities
The group's commercial activities are funded through WFL2. In 2011, £30m of funding was put in place via a £30m loan from GHA to Lowther Homes. It is anticipated that this loan will be increased to £45m in 2020/21. There is no additional funding of commercial subsidiaries from the charitable RSLs. No guarantees shall be provided by the charitable RSLs over the liabilities of commercial subsidiaries.

1.3 Corporate strategy – long term platform for growth

he Wheatley Group corporate strategy for 2015-20, "*Investing in our Futures*" was successfully delivered, with Treasury focused on diversifying the funding base, maintaining a strong credit rating and providing a strong and stable long-term platform for growth; all of which were delivered.

Classified as Internal

The launch of the new strategy for 2020-25, has been delayed pending revision resulting from the business interruption caused by Covid-19.

The key objectives for the Group's financial and treasury management will be the maintenance of a strong platform for the Group to build on its existing strengths, facilitating efficient growth, delivering on its strategic ambitions in the medium to long term and maintaining a strong credit rating from S&P.

2. Policy objectives

In order to achieve its ambitious strategic objectives, the Group needs clear financial and treasury management principles as well as robust controls in place.

Treasury management is the management of the Group's cash flows, funding, banking, investments, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

The Group maintains and operates a Treasury Management Policy (GTMP) in line with the CIPFA guidance on Treasury Management in the Public Services (most recently updated in 2017). In 2015, the Scottish Housing Regulator placed an ongoing requirement on housing associations to comply with this document. This GTMP sets out the framework for managing the Group's overall financial position as well as investing and managing its cash, raising loans and managing financial risks.

Key objectives of this policy are to:

- define the Group's financial objectives and set out a clear set of Golden Rules for management of treasury activities

- ensure that the Group's loan portfolio represents the optimum balance of risk in interest rate, loan maturity, flexibility and fixed rate exposure

- ensure that the Group's officers have the authority to take the necessary action as and when required in response to changes in the financial markets

The overriding objective of this policy is to be risk averse, whilst allowing the Group to achieve its strategic objectives within agreed financial parameters.

In order to ensure that the Group's treasury objectives are achieved, this policy is to be reviewed at least every three years, to bring it in line with changes in the financial markets, economic environment, changes in the housing sector as well as changes in the group's strategic direction. Any changes to this policy will be approved by the Wheatley Group Board.

This policy is accompanied by the Group Treasury Operational Framework, which sets out the detailed mechanical arrangements for how the group's funding and liquidity arrangements will work in practice, including securing and drawing down funding at subsidiary level, cash management and management of financial risks, including compliance with funding agreements.

Classified as Internal

3. Delegation of Responsibilities

The Board of WHG has the overall responsibility for WHG's funding and investment strategy and the approach to managing financial risk, via a variety of mechanisms such as approval of the Group business plan, setting of treasury policies, appointment of the Group Chief Executive (who appoints other senior officers, e.g. the Group Director of Finance) and delegation of duties to execute policy objectives.

The Board of WHG has responsibility for:

- setting out the financial direction for the Group, including principles of Group financial management such as key financial ratios the Group is required to meet
- raising of finance for the Group and signing off any new borrowing facilities via Group funding vehicles, WFL1 and WFL2
- setting treasury policies in relation to cash investments, intra-group borrowing and management of financial risks
- management of strategic financial risks for the Group, including interest rate risk, inflation risk, funding risk, liquidity and counterparty risk
- interest rate hedging using financial instruments
- monitoring overall cash flow and financial performance across the Group, including compliance with funding agreements and Golden Rules at WFL1 and WFL2 level

The subsidiary Boards are responsible for:

- setting their own financial plans within the parameters set out by the Group Board
- managing their cash flow to ensure delivery of objectives by drawing down funding from Group funding vehicles, WFL1 and WFL2, in line with their approved business plans
- ensuring compliance with intra-group funding conditions as agreed with WFL1 and WFL2
- management of operational financial risks in line with this policy and approved subsidiary business plans

The Group Treasury Management Policy sets out the framework for all treasury activities and no activity can be undertaken unless specifically authorised within the policy.

The Group Director of Finance has authority, within the parameters of this policy, to:

- drawdown and repay loans at WFL1 and WFL2 level under any committed debt facility and incur associated fees and interest costs as set out in the related funding documentation

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- enter into negotiations on new borrowings and incur reasonable costs such as loan arrangement fees in doing so in line with the Scheme of Financial Delegation.

- manage the Group's funding relationships

- monitor compliance with WHG's loan covenant obligations and Board-approved Golden Rules and take remedial actions as appropriate

The Group's commitment to any new borrowing and any material changes to existing borrowing facilities must be approved by the Wheatley Board.

Based on the approved business plan for each subsidiary (within the overall Group business plan), the debt drawdown and repayment profile for the year will be agreed for each subsidiary, subject to any subsequent changes approved by their Boards. The Director of Treasury has authority to manage subsidiary borrowings within the Group funding arrangements and in line with agreed subsidiary debt profiles.

Under guidance from Group Director of Finance, designated treasury staff are authorised to place surplus cash balances with the institutions approved in accordance with this policy.

Should the Group Director of Finance propose to undertake a transaction which is not in accordance with this policy, the proposed transaction and reasons for it will be presented to the Wheatley Board for its approval before the transaction is carried out.

Given the Group's dynamic business plan, pace of growth and the related impact on the funding requirement, the Group Director of Finance will review the size, relevance and cost of the Group's debt facilities at least annually.

The Group will maintain clear Board approved mandates for all debt and banking transactions.

4. Financial Management

4.1 The Group will operate subject to the following key financial principles:

- Each subsidiary will be financially viable in its own right (any subsidiary transactions will be subject to intra-group dealing principles set out in section 9 of this policy).

- There is a clear differentiation between charitable activities of the Group, which are run for the benefit of customers, and the Group's commercial activities, which are focused on maximising surpluses which can be re-invested in the Group's charitable activities

- The Group will deliver value for its customers by being as efficient as possible, by sharing services, using economies of scale and robust contract management

- Any investment decisions will be supported by a strong business case

- The Group will operate in accordance with Board approved set of financial Golden Rules, which will help ensure we remain financially strong and sustainable as a Group.

The Golden Rules are derived from key measures used by the credit rating agencies to assess the Group's financial strength as well as financial covenants agreed with the Group's funders. These have been developed to fit our specific financial profile and circumstances and are comparable with similar approaches adopted by other large English Registered Social Housing Providers. These will be subject to annual review by the Wheatley Group Board.

Financial covenants are a key focus of management and Board-level reporting and are closely monitored to ensure any necessary actions can be taken as soon as possible.

To ensure the financial sustainability of the Group as a whole, the Wheatley Group Board will also annually approve a Group and subsidiary business plans and a Group-wide range for rent increases in the following year.

Each subsidiary will also approve their own financial plans within the parameters set by the Group Board, taking account of local markets and priorities.

Robust treasury management practices, as set out in this policy, will ensure that the Group can monitor compliance with the Golden Rules, manage any associated risks and implement mitigating actions as appropriate to ensure long term financial strength of the Group.

5. Liquidity Management

The Group will ensure that it has enough cash available in the right place and at the right time to meet all payment needs, by:

- Understanding cash needs across the Group through detailed cash flow forecasting
- Ensuring minimum cash balances are maintained and any surplus cash is invested in line with key agreed investment principles
- Ensuring sufficient committed liquidity lines are available to be drawn as required to meet payment needs
- Maximising, as far as possible, the transparency and efficiency of cash positions across legal entities, taking account of any regulatory requirements
- Identifying and establishing diverse contingent funding sources

5.1 Understanding cash flow

WHG will ensure at all times that for the RSL Borrowing Group, DGHP and Lowther/YourPlace, the following cash flow forecasts are available:

- An annual, in-year cash flow forecast, based on approved business plan projections
- a rolling 12-week cash flow forecast (in-year, but supplemented by daily cash data as we approach year-end)
- a detailed daily cash flow forecast for the immediate 4-week period

A variance analysis on projected figures is also to be produced and reported to the Group and subsidiary Boards on a quarterly basis to validate actual cash position against business plan projections and agree corrective actions as appropriate.

The 12 month rolling cash flow forecast for subsidiaries will be consolidated to produce Group cash flow projections – for the RSL Borrowing Group, the commercial subsidiaries and the whole of the Wheatley Housing Group.

Detailed cash flow projections and past trends will then be used to identify the size and timing of cash requirements across the Group to ensure that cash can be made available as required.

5.2 Managing cash

The Group will maintain cash levels that reflect its liquidity requirements (as set out in the Golden Rules).

The Group will work within the following cash limits:

- an amount within each RSL subsidiary, or as pooled RSL Borrowing Group cash, which covers the total sum to cover a minimum of one months' cash requirement, being day-to-day running costs as well as any planned refurbishment costs and development activities
- an amount within each commercial subsidiary to cover a minimum of 2 weeks' cash requirement at any time.

Grants from the Scottish Government will be used for their defined purpose and in priority to interest-bearing debt finance.

5.3 Committed credit lines

At all times the Group will ensure that it has access to committed credit lines that when taken together with any cash balances, mean there is sufficient available funding to meet the Group's liquidity Golden Rule.

This will be achieved through the Group having in place committed term and revolving loans as well as flexible access to overdraft facilities.

However, the objective will be to maintain a minimum of £10m intra-group positive cash position and only utilise these overdraft and credit line facilities when necessary or when it is financially beneficial, so as to minimise annual interest costs and to ensure day to day cash management can be managed efficiently.

5.4 Managing working capital

The Group will pay suppliers promptly, and in line with its legislative obligations as a Contracting Authority under Scottish procurement regulations.

The Group and all its subsidiaries will pursue a debt control policy, particularly with regard to rental income, service charges and recharges to owner-occupiers. This will include maintaining an effective sales ledger system where outstanding debts are followed up regularly.

As at end-May 2020, for subsidiary RSLs within the Group, c.60% of their tenants rely on housing benefit, with a further c.15 – 20% receiving Universal Credit (UC) for some or all of their rental payment. The rate of tenants moving onto UC has accelerated as a result of the Covid-19 pandemic. Rental income will continue to be impacted by a

Classified as Internal

migration to UC, reflecting the intent of HM Government to simplify the benefits regime into one system by 2023.

There are different implications for the Group's working capital requirements depending on what benefit regime the tenant receives.

Housing benefit is paid directly from the relevant local authority to the Group, the receipt of which is crucial in allowing WHG to manage its cash flow. A system is to be maintained to allow for all outstanding housing benefit payments to be followed up as and when due.

UC was introduced in staged rollouts from late 2013, and now covers all of Scotland. UC replaces six benefits, including housing benefit, and merges them into one monthly sum paid in arrears. The 5-week delay in receipt of the initial UC payment leads to all tenants being in arrears once their benefits have moved from housing benefit to UC. Mitigating actions are in place with a Group Universal Credit team set up in 2019 to support customers and staff to meet the challenges of the new benefit regime.

Any further changes to the benefits system, e.g. as a result of UK Government's Welfare Reforms, will be closely monitored so that their potential impact on rent arrears can be well understood and mitigating actions put in place to maintain stability of the Group's income.

For all commercial subsidiaries, effective debt control policy is crucial with any late payments followed up promptly and appropriate action taken to safeguard income as early as possible.

6. Borrowing policy

The Group's borrowing policy sets out the parameters within which the Group and all of its subsidiaries can raise and manage funding from any sources to facilitate delivery of their objectives, including growth, whilst ensuring that that the overall cost of funds is optimised.

6.1 Sources and types of funding

a) Public subsidy

Around 95% of the Group's operations are in the affordable housing market, with any new developments supported by public subsidy from the Scottish Government. Furthermore, there may be other grants available for specific purposes, such as for implementation of green measures as part of new housing design (or retro-fitted to existing housing) or for wider regeneration and community benefit initiatives.

The Group will ensure that any available public subsidy is fully explored and utilised as appropriate before private finance is used to fund capital improvements, new developments and wider community benefit activities of the Group.

Equally, if there are any grants or other forms of government support (e.g. guarantees) available for any parts of the commercial activities of the group, these will be fully explored and implemented alongside any private finance.

b) Private finance

The key method of financing the Group's activities in the long term will be finance in the form of approved debt instruments, methods and techniques, as set out in this policy. In general, our funding is on a secured basis, but we will explore unsecured debt where this is available and cost effective, delivering value for money.

The following debt instruments are approved methods of long-term private finance for the Group:

- banks and building societies; authorised and regulated by the Financial Conduct Authority (FCA), or their EU equivalent for European banks;

- the capital markets by way of issuing bonds either via an intermediary or in WHG's own name;

- Pension Funds / Insurance Companies – via issuance of bonds or a direct placement of debt instruments;

- not for profit borrowing vehicle companies/intermediaries such as The Housing Finance Corporation;

- Leasing Companies;

- Public bodies such as the Scottish Government or Scottish National Investment Bank;

- Bank of England / HM Treasury funding schemes, including the Covid Corporate Financing Facility or "CCFF"; and

- syndicated loans where there is a syndicate of lenders drawn from the above.

Each debt counterparty, such as banks and financial institutions, will be assessed with reference to their credit quality as part of the borrowing decision process. This will include assessment of counter-party credit ratings, level of government support (if any) and any other market information available at the time.

Any new sources of long-term funding and funding structures involving any of the subsidiaries will be subject to prior approval by Wheatley Group Board.

As a result of onerous capital requirements for banks following the credit crisis in 2008, their ability to provide long-term funding remains constrained. Capital market funding and direct lending from pension funds and insurance companies are the key sources of long-term funding (> 10 years) for the RSL Borrowing Group, supplemented by flexible shorter-term bank funding (≤ 10 years).

In addition to long term funding, to ensure liquidity of the group, short- and medium-term funding such as bank overdrafts as well as term loans and revolving credit facilities will also be put in place alongside long term bond and our legacy bank financing.

Furthermore, project specific funding arrangements may be put in place to fund the Group's wider activities in line with its strategic objectives and alongside any public funding options available for specific projects to create optimum funding solutions.

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The mix of different forms of funding will be selected and maintained to meet the specific business needs of the Group and all its subsidiaries.

We will maintain diversity of funders, and types of funders, to minimise reliance on single lenders and/or single sectors of the financial markets.

6.2 Group funding structure

The Group's funding structure has been developed giving consideration to the following factors:

- Registered Social Landlord regulation and charities law,
- appropriate intra-group lending arrangements,
- requirement for guarantees
- security considerations
- interaction with existing funding facilities and compliance requirements
- risk profile and overall funding costs to the group

The Group funding structure is set out below. The structure recognises the requirement to separate the funding for our regulated charitable activities from any commercial activities.

1. **Wheatley Funding No. 1 Limited** (WFL1)

WFL1 funds the regulated, charitable RSLs in the Group (with the current exception of DGHP) through a structure known as the RSL Borrowing Group. New partners joining the Group main accede to the RSL Borrowing Group arrangement from time to time. WFL1 allows the these RSLs to be funded collectively, within a cross-guarantee structure which allows all RSL assets to be pooled for security purposes. In this structure financial covenants and other funding conditions will be tested at the RSL Borrowing Group level, however, each RSL will also monitor and report funding compliance at the subsidiary level.

2. **Bilateral agreements**

There are a small number of bilateral loan agreements in place for the Wheatley RSLs. While the presumption is that all new lending will be put in place for the RSLs via WFL 1, from time to time direct bilateral loans may be considered if they provide value for money or advantageous commercial terms. Bilateral arrangements may also exist if they have been inherited as part of new partnership arrangements. In such cases the presumption will be these will be novated, where possible and subject to value for money, to the WFL1 RSL Borrowing Group structure.

3. **Wheatley Funding No. 2 Limited** (WFL2)

WFL2 funds the commercial activities of the Group, which currently include Lowther Homes Limited and YourPlace. There is a security trust deed in place for WFL2, and the assets are secured to WFL2 lenders. There is no cross-guarantee between WFL1 and WFL2.

6.3 Balanced debt portfolio

In order to create a loan portfolio that is complementary to WHG's overall objectives, our aim is to ensure that the Group's debt portfolio has the right balance of:

- Fixed and variable
- long-, medium- and short-term debt
- term and revolving loans
- secured and unsecured loans
- funding costs and funding conditions/restrictions

a) <u>Interest rate management</u>

In determining the mix of the loan portfolio and the split between different interest rate bases (fixed or variable), the Group will include the following areas in its assessment:

- The shape of the yield curve, to give an indication of where short-term and long-term rates are expected to move in the future.
- The sensitivity of the annual surplus to movement in interest rates in line with the approved Business Plan.
- The availability, and cost, of financial derivatives to allow the Group to manage the mix between the various rate types effectively.
- The loan offers, particularly via the capital markets and/or private placement markets, which are generally only available on fixed rate terms.
- The effect on the Group and its subsidiaries' ability to meet their financial covenants and ratios.

It is recognised that the Group has legacy fixed rate arrangements on the majority of the Syndicate and EIB debt in place (embedded in the Group's funding arrangements) and terminating these may incur significant breakage costs. All long-term funding arranged since 2014 (bond issuance in 2014, retained bond issuance in 2015, private placements with BlackRock in 2017 and 2018, private placement with M&G in 2019) has all been on a fixed rate/coupon basis, resulting in a high proportion of fixed rate debt for the Group.

It is common for RSLs to have a higher percentage of fixed rate funding than other real estate operators which tend to have a 70% fixed / 30% floating to allow for asset disposals and the resultant repayment of debt without incurring breakage costs on associated fixed rates or other hedging agreements. Due to the long-term nature of asset-ownership RSLs do not commonly make material asset disposals and therefore the certainty of fixed interest costs, particularly where the cost of funds is below the assumed rates in the business plan, allows for potential financial outperformance.

Due to existing fixed rate arrangements and availability of current long-term funding being primarily on a fixed rate basis only, the Group's debt portfolio has a very high proportion of fixed rate debt (at the target maximum amount). However, as a long-term policy objective, the Group will endeavour to achieve the following interest rate split target for its debt portfolio over the three-year period of this policy:

	Target minimum %	Target maximum %
Fixed	75	95
Variable	5	25

To do this, the Group will frequently monitor the market and the associated termination costs on existing fixed rate arrangements and look for opportunities to restructure and/or break these when market conditions allow, to reduce the proportion of fixed rate bank loans over time. Due to the fluid nature of the Group's business plan and timing of income receipts e.g. grants and housing benefit, the targets above will be reviewed every three years in line with this policy being updated.

In addition, in aiming to achieve these target proportions, the Group will consider the market environment and the market's expectations for future interest rate movements. The actual position may vary from target, on the basis that the variance may be justified due to an improvement in funding costs (versus the business plan assumptions) and/or to reduce risk given the market conditions.

The Group's hedging arrangements will be reviewed at least annually as part of the approval of the business plan and following any changes to the Group's debt profile. Ongoing Treasury reporting will assess the risks associated with the hedge profile being outside the targets set out above and consideration will be given, where appropriate, to aligning the fixed:floating loans ratio, considering market conditions and associated costs at the time. Throughout the year the Director of Treasury will monitor the arrangements in relation to the ongoing funding requirements and current level of market interest rates.

Use of derivatives

The use of derivatives such as Swaps, Forward Rate Agreements (FRAs), Collars, and Caps and Rate Locks is permitted for the sole purpose of managing interest rate risk (hedging). The use of derivatives requires to be approved by the governing body of the entity for which they will be used as well as the Wheatley Group Board. WHG will not use derivative instruments to maximise return but to protect its risk exposure and to control interest costs. This means that derivatives may only be used to hedge a loan, or loans, and that there should be no scope to make profits or losses as a result of such derivatives. From time to time this may have a significant cash flow cost, or benefit, to the Group (which will be offset by a corresponding benefit, or cost, on the underlying loan instrument) and any such impact will be assessed over the full period of the hedging instrument in question.

Stand-alone derivatives create the potential for the hedge counterparties (most likely, the lending bank(s)) to demand a cash collateral amount to cover current and future exposure under the contract, the terms of which would be negotiated under a Credit Support Agreement. Any decision to enter into stand-alone derivatives at WFL1 or subsidiary level would be subject to prior Group Board approval.

b) Debt maturity profile

The Group will be funded by a combination of:

- long dated capital markets or institutional funding (via private placements) with bullet repayment – our core source of long-term funding for the Group going forward

- legacy long dated bank funding with a pre-agreed repayment profile – expected to reduce over time as loans mature and long-term bank funding is replaced with other forms of finance

- shorter dated bank loans, primarily via revolving credit facilities which can be drawn, repaid and redrawn without penalty, with maturities between 5 and 10 years, providing operational liquidity, development funding facilities and project specific funding

The Group will ensure that its loan portfolio is sufficiently balanced in relation to the maturity (i.e. date of repayment) of its loans so that there is no undue pressure on cash flow to make debt repayments and refinancing risk can be managed in a timely manner.

To achieve that objective, the Group will endeavour to ensure that no more than 10% of its total loan maturities fall due for repayment in the immediate 18 month period and no more than 25% within the immediate 5 years unless such higher repayments (e.g. when bonds mature) can be supported by latest approved business plan cash flows.

In order to minimise any potential liquidity problem this could present, the Group will endeavour to negotiate loans and/or access capital markets for new funding to allow for refinancing to take place as and when necessary and in good time of any loan maturity. In addition, the Group will run a continuous charging programme over new build assets (known as the 'Build to Secure' programme) to provide availability of security to support new fund-raising.

Maturing bonds will be refinanced no less than 18 months in advance of their maturity date, unless otherwise approved by Group Board. Extreme market conditions may lead to an extension of this timetable; the Director of Treasury will update the Board in the event that funding market conditions deteriorate. The Group can utilise any agreed overdraft facilities or short-term working capital facilities as required to ensure that liquidity is always maintained. Significant refinancing risks will be reported to the Boards of WHG, WFL 1 and WFL 2 through the rolling 12-month cash flow and treasury reporting.

c) Term and revolving loans

In order to ensure sufficient liquidity for the Group and to help manage the overall cost of borrowing, the Group will ensure that its overall debt portfolio has sufficient revolving credit line facilities alongside term debt.

The Group will endeavour to have at least 10% of its overall bank loan facilities as revolving loans at any time. As at 31 March 2020, RCF committed funds stood at 15.7% of total funding availability. This will allow it to repay some of its bank debt if the cash flow allows it to minimise interest costs, whilst maintaining access to liquidity as and when required.

d) Secured and unsecured debt

Classified as Internal

In line with the nature of the Group's core activities the Group will raise long term funding for RSL activities mostly on a secured basis, where the RSLs' affordable housing assets will be used for debt security purposes.

Similarly, funding for asset based commercial activities, such as development or acquisition of new housing for market rental will be raised mostly on a secured basis.

The Group may also raise, where appropriate, funding on unsecured basis, however, this will be considered on a case by case basis by reference to funding strategy, cost of funds, and other funding conditions.

e) <u>Cost of funds and funding terms</u>

The main objective is to maintain the lowest average cost of funds that is possible for the Group to achieve whilst ensuring that loan covenants and security requirements allow sufficient flexibility for the Group to achieve its strategic objectives.

As far as possible, the Group will seek to utilise the cheapest source of funds, however each offer will be assessed in a holistic manner, considering not just the headline cost of funds, but will evaluate all aspects of the funding (arrangement fees, non-utilisation fees, covenants, security requirements, prepayment terms, anticipated drawdown cycle from the business plan, consent requirements etc.).
The Group will also ensure that funding terms relating to its debt facilities are not too onerous, in particular:

- that there is sufficient headroom in financial covenant targets when tested against latest business plan projections

- other funding conditions, including funders' consent requirements allow the Group to achieve its strategic objectives

The overriding objective in terms of loan covenants is to ensure that any existing covenants, and their associated Golden Rules, are met comfortably. The definitions used to arrive at these ratios will be negotiated to the Group's best advantage.

Business plans at subsidiary level and across the whole group are presented 6-monthly to the Boards (in February and August Board cycles). This analysis includes anticipated funding requirements and the corresponding impacts on covenants and Golden Rules.

Compliance with loan/bond covenants is of critical importance and is monitored on a monthly basis in relation to actual covenant ratios achieved and future projections, so any corrective actions can be taken as soon as possible.

Additionally, WHG will avoid onerous covenants on new (and existing) facilities, even if this is at the price of a marginal increase in the borrowing rate. The aim will be to reduce (if not eliminate) any negative covenants that will restrict the Group in carrying on its normal business.

f) <u>Currency Risk</u>

WHG is not permitted to take on direct currency risk (i.e. to enter into a loan denominated in a currency other than GBP). Board approval is required in the event of indirect currency exposure associated with fundraising (i.e. for a USD private

Classified as Internal

placement whereby WHG may be required to indemnify currency losses in the event of an early redemption of the debt).

6.4 Asset security

The Group will aim to maximise the use of its property stock for the purpose of security to support its debt facilities. In so doing, it will seek to achieve a valuation type that will maximise the valuation arrived at and a loan to value covenant that will optimise the amount that can be drawn on any given level of property security.

Release of property security as a result of revaluations in line with the loan documentation will happen as a matter of course where permitted by lenders (notwithstanding security to cover mark-to-market exposures on embedded fixed rate loans on the syndicate position). Housing stock released will therefore be available for supporting additional loans on new properties or other schemes the Group may wish to undertake where possible.

The Build to Secure programme will continue to charge new build assets such that these become available for security purposes within 24 months of completion.

Affordable housing assets of the RSLs in the RSL Borrowing Group will be pooled for asset security purposes to the extent required to support borrowings and cross-guarantees will be in place between the RSLs to facilitate the pooling of security. All RSLs in the Borrowing Group will be required to have sufficient assets to support their debts. A Build-to-Secure programme is in place with the Wheatley Development team to accelerate the timing between completion of homes and those assets becoming available for security purposes.

The Group will avoid granting floating charges to its lenders wherever possible.

6.5 Management of funding relationships

The Group will have a number of funding relationships:

- with banks, either on syndicated or bilateral basis
- with bond investors and credit rating agencies
- with any other institutional investors
- with the Scottish Government, via a capital markets intermediary

It is crucial that all funding relationships are managed effectively. The Group will ensure that:

- all financial and management information is prepared to a high standard and provided promptly to all funders
- compliance with all financial covenants is monitored regularly as part of monthly management accounts and any issues resolved in good time
- all other funding conditions, as set out in funding agreements, are monitored and any requirements met as appropriate

The Group will endeavour to maintain close relationship with its funders, in particular, on key strategic issues, as appropriate, to ensure continued support of the Group's strategy.

6.6 Credit Rating Agencies

The Group has had credit ratings in place for the following legal entities with Standard & Poor's ('S&P') since 2014:

- Wheatley Housing Group Limited
- The Glasgow Housing Association Ltd
- Wheatley Group Capital PLC

The management of the on-going relationship with S&P is critical due to their continual assessment of the creditworthiness of the Group and that of the affordable housing sector in the UK on behalf of bond investors. S&P, and any successor or additional credit rating agency, are recognised as a key stakeholder for the Group and are managed according to the same principles as any of the Group's funders. Meetings (via telephone or in person) are held quarterly, with an annual review held in person in the Group's Head Office with S&P representatives and senior Group management.

While some external issues (sovereign downgrades and sector-wide impacts resulting from governmental change) remain outside the control of the Group, the Group maintains strategic focus on maintaining and, where possible, improving credit rating and outlook across the three rated entities.

The Group will also manage and maintain relationships with bond investors, with updates in the form of meetings, webinars and/or material provided in our Investor Relations section of the Group's website on at least an annual basis to explain the Group's latest performance, plans and Environmental, Social & Governance (ESG) reporting.

As at our May 2020 review, the three entities are rated as A+ Stable.

7. Investment policy

As a general principle, the Group will ensure that any surplus funds are invested without risk exposure to the capital invested, whilst at the same time maximising the return on investment and allowing ease of access in terms of liquidity. The bulk of short-term liquidity for the Group is provided by way of Revolving Credit Facilities ('RCFs') rather than via cash deposits, to avoid the inefficiency of drawing term debt to place it on deposits prior to use.

7.1 Principles of investment

WHG will follow these key principles in the order stated before any investment decision is made:

- Security of Capital - Protection of sum invested. The key aim will be to ensure that the capital amount invested is not put at risk. Investments that could see the erosion of the capital value are prohibited. The return received on the funds invested is the only aspect of the investment that will fluctuate in line with market movements.

Classified as Internal

- Investment Liquidity - Allowing ease of access to funds particularly in the early years to meet ongoing investment and development expenditure. To achieve this, the Group will invest a proportion of available surplus funds in products that allow easy access, so that surplus cash can be utilised, as far as possible, to meet liquidity requirements before debt drawdown. As set out above, the majority of investment liquidity will be provided via RCFs to ensure we meet our Golden Rule on liquidity requirements.

- Investment Return – Total return on investment (including interest income). This is to ensure that a sufficient financial return to reduce net funding costs. The current low interest rate environment versus the Group's legacy average cost of funds means that any net investment return is negative, thus the preference for the Group to have liquidity provided via RCFs rather than holding cash on deposit.

- Diversification of Investment Portfolio – Ensuring that funds are invested in different instruments, with different high-quality counterparties and for different maturities to reduce investment risk.

7.2 Approved investment instruments

The following investment instruments are approved for the purposes of investing surplus funds:

- Short term money market deposits (up to 12 months) and with Weighted Average Maturity (WAM) of no more than 90 days

- Bank and Building Society Deposits with institutions approved for investment in line with this policy

- Triple 'A' Rated Money Market Funds (AAA) – only where the Net Asset Value is constant (i.e. the principal amount is guaranteed)

- UK Government Securities (Gilts & Treasury Bills) – directly or via a government securities fund

These instruments will allow for the Group's key investment principles of protecting the capital sum whilst at the same time maintaining liquidity, investment diversification and achieving a reasonable return at all times.

The Group will not invest in Money Market Funds where the capital repayment is at risk as a result of market volatility (Variable NAV funds are not permitted).

7.3 Investment counterparties

The key policy objective is for the Group to avoid the risk of dealing with a counterparty with a less than acceptable credit rating. The counterparty credit rating is based on a set of recognised credit criteria which will allow the Group to make an informed decision on the creditworthiness of any investment counterparty and level of any potential exposure involved.

It is therefore essential that the Group maintains an objective credit policy, which is based on independent professional opinion. In assessing the credit quality of the

Classified as Internal

organisations it is to invest in, the Group will therefore rely on the following credit rating agencies:

- Fitch Ratings,
- Moody's Investor Service, and
- Standard & Poor's

The credit ratings of counterparties should only be considered as a starting point in analysing the credit quality of any counterparty and other credit risk factors will be considered before a decision is made. Other credit factors which will be taken into account include market data, financial press, financial support from the government, etc.

We may have to consider placing deposits with existing lenders or operational bankers to the Group (or any other lender or banking provider which may in future join the group funding arrangements through a sell down of debt in the market or as a lender to the Group's new partners), even where they do not meet the minimum threshold as set out in the table below for relationship reasons. In these exceptional circumstances, we would only be permitted to place investments with the Group's existing or future lenders and/or operational bankers if the credit rating is two notches lower than our minimum threshold.

Other than with its lenders, as a policy objective, WHG will seek to invest funds with the financial institutions which have the following credit ratings:

Short Term	Fitch	F1+, F1, F2
	Moody's	P-1, P-2
	S&P	A-1+, A-1, A-2
Long Term	Fitch	AAA, AA+, AA, AA-,A+
	Moody's	Aaa, Aa1, Aa2, Aa3, A1
	S&P	AAA, AA+, AA, AA-,A+, A

It should be noted however, that in the current financial environment these ratings may not be achieved. Therefore, an exception may be considered to allow investments with major UK clearing banks which have a large amount of UK Government support (e.g. Royal Bank of Scotland), provided Wheatley Group Board approval is obtained in advance of any such deposit being placed.

Using external treasury advisers as necessary, the investees / borrowers list will regularly be reviewed and updated. In so doing, the Group will consider the length of time the investment is to be outstanding with any one counterparty, based on their credit rating at the time. It will also fully consider the minimum credit quality of the counterparty in comparison to that of its group position. This will mean that, if the counterparty concerned forms part of a wider group structure, the rating to be considered may extend to the wider group in relation to the nature of support given by the parent to that subsidiary counter party. In particular, the legal obligations within the group will need to be fully considered.

Classified as Internal

The Director of Treasury is responsible for monitoring credit ratings of the Group's borrowing and investment counterparties and reporting any material changes in their credit quality as part of the quarterly treasury report to the Wheatley Group Board.

7.4 Amounts invested with any one institution

The Group will diversify its investment portfolio by investing funds with high quality counterparties to prevent over-reliance on a small number of counterparties. The following amounts are across the entire group (i.e. in relation to funds held by WFL1, RSL Borrower Group, WFL2 including the commercial subsidiaries and DGHP).

The following principles will be applied in determining the amount to be invested with any one institution:

- The maximum investment amount allowed with the Group's key relationship and account bank (currently RBS) will be the higher of £125m or 70% of the total amount available to be invested.

- The maximum investment amount allowed with each of the Group's key relationship banks will be the higher of £100m or 50% of the total amount available to be invested.

- The maximum investment amount allowed with the Group's other relationship banks or any one counterparty other than the relationship banks will be the higher of £75m or 40% of the total amount available to be invested.

- To further minimise the risk of exposure to any one investor, the maximum term any investment can be made for is limited to 6 months, after which time the counterparty credit risk needs to be reviewed.

Should there be a need to invest outside of these terms, the approval of the Board of the relevant funding entity (WFL 1 for our RSLs and WFL 2 for our non-RSL entities) will be sought. In such a case, the Board will be required to approve the method of investment, having sought suitable independent professional advice as necessary.

It is possible that interest could be 'rolled over', with accrued interest on the investment, when it matures with any one counterparty. In such circumstances accrued interest on the deposit is realised and consequently a breach of the credit limit for the counterparty may occur. Therefore, rollovers of principal plus interest are permitted subject to a limit excess of 10% of the maximum permitted amount to be invested with any one institution. However, the Group is to ensure at all times that interest left to accrue on the capital sum will not be at the expense of drawing down loan funds to meet the costs of the business plan.

As a general principle, the Group is not permitted to invest surplus funds if this would result in drawing down debt funding to meet business plan requirements as in a normal market borrowing rates are higher than investment rates and would result in "negative arbitrage". Therefore the Group will aim to have liquidity provided via Revolving Credit Facilities, rather than drawn funds placed on deposit.

7.5 Investment return

The Group will ensure at all times that the rate received for invested funds is the best possible rate available in the market at the time for that type of investment, taking account of ease of access, maturity and credit quality of the investment counterparty.

To achieve this, the Group will use available market information and, if necessary, investment brokers to obtain market quotes and benchmark the total return on any proposed investments. For the purpose of this calculation, the total investment return will include the cost of transfer of funds and any administration charge involved in investing with an institution other than the Group's main bankers. The Group's main bankers will therefore act as a benchmark to other financial institutions meeting the Group's investment criteria.

Classified as Internal

8. Financial risk management

Effective management of financial risks is key to the long-term financial viability of the Group and its ability to achieve its strategic objectives.

The principal financial risks the Group is exposed to and key mitigating actions the Group will employ to manage these are:

Risk	Risk description	Category	Risk management
Liquidity risk	Risk that the Group may have insufficient financial resources to meet day to day fluctuation in working capital and cash flow (e.g. insufficient cash available to pay staff salaries or supplier invoices when they become due), which may result in breach of contracts	Low	− Robust cash flow forecasting and management − Working capital management − Sufficient cash and committed credit lines available to cover Golden Rules on liquidity − Alternative contingent funding sources available (overdraft)
Funding risk	Risk that the Group may be unable to raise the required finance in the market or pay too high a price for its finance and thus reduce overall resources available to deliver its objectives. Risk that funding information requirements are not met, and if unable to be resolved within specified remediation periods, will result in a breach. Risk that covenants are breached Risk of insufficient security availability to meet minimum asset cover requirements	Medium	− Robust financial management in line with Golden Rules − Strong relationship with lenders, bond investors and rating agencies − New funding arranged at least 18 months before maturity of existing funding subject to ‘normal’ market liquidity − Notification and reporting processes across the Group in the Treasury and Finance teams − Projections of covenants prepared with mitigation actions taken in advance to avoid forecast breaches − Build to Secure asset charging programme to provide security availability for the Group on a continuous basis
Interest rate risk	Risk that the Group’s interest costs on its borrowings may be unaffordable if market interest rates rise or that in the environment of falling interest rates, the Group may not be able to take advantage of lower market	Medium	− Interest rate exposure monitored and understood − High proportion of fixed rate debt − Regular assessment of market projections for short- and long-term interest rates − Existing hedges monitored for effectiveness

Classified as Internal

	interest rates in relation to its borrowings (opportunity cost)		− Action taken as opportunities arise to align hedging position with policy
Inflation risk	Risk that the Group's cash flow will be adversely affected either through reduction in income or increase in costs as a result of movement in general inflation rates	Medium	− Monitoring of net inflation exposure − Matching of inflation linked income and expenditure − Robust procurement
Counterparty credit risk	Risk that the Group may incur financial losses if a counterparty to treasury transactions fails and is unable to fulfil their obligations.	Low	− regular monitoring of counterparty credit ratings − counterparty exposure and credit rating limits − diversification of investments − monitoring of financial health of counterparty banks, using CDS data where appropriate
Risk of fraud	Risk that the Group's employees involved in treasury transactions and transactions involving cash may act fraudulently to their personal benefit Risk that criminals target the Group's payment systems and/or send fraudulent invoices for processing or instruct payments over the telephone (Phishing, email cloning or other fraud approaches) Risk that the Group's employees with payment cards spend the Group's money on personal transactions	Low	− clear procedures for dual authorisation of treasury transactions − segregation of duties − regular audit of Group Treasury − external training (from our relationship banks and/or law enforcement) to keep updated on new fraud approaches − limits on individual payment cards with maximum £200 per transaction and monthly limit of £1000 as standard. Higher limits require sign-off from Executive Team member or senior manager as appropriate.
Credit rating downgrade risk	Risk that the Group is downgraded to BBB+ or lower by S&P / BBB+ by Fitch / Baa1 by Moody's (if more than one rating is in place, the lowest rating will apply), will trigger a cancellation of availability and a demand to prepay all drawn debt after a 30-day consultation period on the EIB facilities Risk that a prepayment event on EIB facilities will	Medium	− while the Group is in control of the various internal financial disciplines which influence the credit rating agencies (liquidity, gearing, strategy & management, financial performance, asset quality), there are external factors (UK and Scottish Government benefit regimes; UK and Scottish sovereign ratings) which remain outside of the Group's control − we have quarterly updates

Classified as Internal

	trigger cross-default provisions for other WFL facilities		with S&P with the credit rating agency being a key relationship for the Group − Clear strategic objective to maintain credit rating at least at A+ stable

Implementation of the key principles of this Treasury and Financial Management Policy is central to managing financial risks.

In order to manage the above risks effectively, the Group will:

- Maintain an up to date Risk Register (note the Treasury sections form part of the Finance Risk Register reporting) to identify, record and measure all financial risk
- Implement strategies for dealing with specific risks
- Regularly report on effectiveness of these risk mitigation/management strategies
- Annually re-evaluate the whole risk management approach and process taking into account treasury policies and linkages between different risks

The Group will have a focused and cohesive reporting framework in place for Board members as well as the Senior Management team. This will include the following:

- Compliance with this policy

- Reporting on the Group's interest rate, inflation and credit risk exposure and how they are managed

- The actual position of the Group's financial covenants and forward covenant projections

- Sensitivity tests highlighting the effect on the Group's financial results and ability to meet the financial covenants and ratios.

Classified as Internal

9. Inter-company dealing

9.1 Key principles

As the Group comprises charitable regulated RSLs and commercial subsidiaries it is crucial that any financial inter-company transactions are carried out in accordance with clear principles, any applicable law, regulatory guidance, and Golden Rules approved by the Wheatley Group Board.

The financial inter-company transactions covered by this policy fall into the following key categories:

- Funding transactions within the Group funding arrangements

- Financial support between group companies – inter-company loans other than from Group funding vehicles WFL1 and WFL2

- Financial investment in Group companies – e.g. equity investment

- Any cash pooling arrangements for the purpose of maximising return on surplus cash

As a general principle, all inter-company dealings (e.g. loans, deposits, equity investments etc.) between a charity and non-charity may only be allowed if they are for the “benefit of the charity”. It will be for the relevant governing body of those involved in the dealings to formally approve any such arrangements. To satisfy this requirement, the following factors need to be present:

- any inter-company loans/deposits are adequately secured

- a commercial rate of interest is charged on loans/deposits

- there is a proper agreement showing the terms of the loan/deposit e.g. repayments

- the right balance of risk and return can be demonstrated on any inter-company investments, such as equity investments

In particular, for any inter-company loans, where a charity is funding a non-charitable Group entity, the charity will have sufficient documentary evidence showing careful and proper due diligence was carried out on the financial viability of the that entity prior to making a loan.

Based on the above, any inter-company investments and borrowings between Group entities will always be carried out on an arm’s length basis. In each case, detailed legal and tax advice will be sought to ensure that the optimal arrangements can be put in place, to meet any and all applicable legal, regulatory and taxation requirements.

To ensure that the return on surplus cash balances of the RSL Borrowing Group can be optimised, the Group will endeavour to pool any cash surpluses of charitable RSLs within the Group, subject to satisfying any legal and taxation requirements (based on specialist external advice).

Similarly, any cash surpluses of commercial subsidiaries will be pooled for investment purposes.

Classified as Internal

The Group will seek legal, tax and financial risk management advice as appropriate as to the most efficient method of managing surplus funds across the Group to maximise the benefit of the potential group arrangements within any known restrictions.

9.2 Group funding arrangements

The Group will operate funding arrangements which recognise the different credit profiles of the charitable and non-charitable group activities and allow associated risks to be adequately ring-fenced:

- Charitable regulated activities of the Group RSLs will be funded as one RSL Borrowing Group through Wheatley Funding No.1 Limited ('WFL1') or stand-alone for DGHP, to allow a degree of flexibility in how funding is used by the RSLs and so that charitable assets can be used most effectively for security purposes. New RSL partners may operate outwith this RSL Borrowing Group for a period, but there will be a general presumption that (subject to value for money and their continued ability to meet their strategic objectives) any such partners will seek to accede to the RSL Borrowing Group arrangement.

- Activities of commercial subsidiaries will be funded separately through Wheatley Funding No.2 Limited ('WFL2') with funding terms appropriate to their credit profile.

There will be no cross guarantees between the charitable and non-charitable parts of the Group funding structure.

a) <u>Funding charitable RSL Borrowing Group</u>

For funding purposes, the RSL Borrowing Group will therefore be seen as one entity, with all affordable housing assets of the RSLs pooled for debt security and financial covenants set on the combined financial results of the RSL Borrowing Group. To achieve this, all of the charitable RSLs will provide cross-guarantees for each other's obligations to WFL1.

However, in accordance with the Group's key financial management principles and Golden Rules, each RSL will need to demonstrate financial viability in its own right. This means each RSL must be from able to support any debt from WFL1 from their own assets and cash flows.

Whilst overall lender financial covenants will be set at the RSL Borrowing Group level, each subsidiary will also be required to operate within a business plan, with prior agreement from the Wheatley Group Board as well as agreed by its own Board.

Within the RSL Group funding arrangements, total funding costs of WFL1, including interest costs (taking account of any fixed rate arrangements), commitment fees and any other related fees, will be shared between the RSLs based on their individual proportion of the overall WFL1 funding. This will be done through an all-in funding rate on borrowing, which will be equal for all RSLs which will be subject to monthly review and notified via the issue of a monthly loan statement. This statement sets out:

- Interest rate

- Loan amounts (opening, closing and drawdowns/repayments)

- Year-to-date interest paid and current month interest due

Classified as Internal

b) <u>Funding non-charitable activities</u>

Non-charitable activities of the Group, in particular the development/acquisition of market rented housing, will be funded through WFL2 and be subject to separate asset cover and financial covenant requirements agreed with commercial lenders.

Lowther Homes will be funded by a combination of equity investment from GHA and commercial debt.

10. Treasury Controls & Compliance with Policy

Internal control procedures over treasury activities will be maintained so that any material fraud or error is either prevented entirely, identified and reported as soon as it occurs in line with the Group's Risk Management Framework.

To achieve this the following principal controls will be applied:

- Segregation of duties between treasury dealing and related accounting and recording. All dealing activity (over the phone or on-line) will be undertaken within the Treasury department whilst any related recording of treasury transactions will be performed independently within the Financial Reporting department

- Controls over disbursement of funds will include dual authorisation for all payments, documented for each bank in a formal bank mandate. The bank mandates will always be kept up to date and apart from listing all bank signatories will also identify individuals authorised to transact money market deals on behalf of WHG

- All term deposit transactions will be accompanied by a dealing ticket, authorised by two signatories as per the relevant bank mandates

- All relevant treasury limits will be monitored for headroom prior to any deals being transacted and any breaches reported to the Board as soon as practicable after they are identified.

In order for WHG to ensure compliance with all its funding agreements, there are delegated controls in place between the treasury team and other key officers within the organisation (primarily in the new build development team, asset team, property legal, governance and procurement).

The areas for monitoring by these officers include asset disposals / acquisitions, fulfilling the terms of public grant obligations, arranging corporate reorganisations, the granting or release of security, entering into third party agreements in relation to payment or other financial products and changes in key management roles such that Treasury can manage any consent requirements and/or information undertakings proactively with our lenders.

While Treasury undertakes an overview monitoring role, it is the responsibility of the key officers to provide timely information in respect of the areas set out above. The Board will be advised of any issues which may lead to default under these agreements.

Classified as Internal

A detailed treasury report, covering all aspects of treasury activities as set out in this policy, will be submitted to the Group Board at least quarterly. This will include:

- analysis of cash flow and borrowing requirement together with an explanation of variances to previous forecast
- analysis of group debt position, including debt drawn to date, any repayments due, cost of borrowing and forecast borrowing position for the next 24 months
- compliance with funding agreements, including financial covenants
- management of financial risks, including review of hedging arrangements, counterparty exposures and credit ratings where term deposits have been placed

There will be ongoing training for all staff in the Group Treasury function to ensure they keep abreast of all latest treasury developments. The Group Treasury function will be subject to regular review by internal audit.

11. SHR Annual Assurance Statement

In February 2019, the SHR published its guidelines on Annual Assurance Statements ("AAS"). These statements represent a key part of the SHR's regulatory risk assessment and are intended to provide assurance to stakeholders, including the SHR, that the Group's RSL's comply with relevant requirements of Chapter 3 of the Regulatory Framework, including:

- all relevant standards and outcomes in the Scottish Social Housing Charter;
- all relevant legislative duties; and
- the Standards of Governance and Financial Management.

The AAS is required to cover and include the following:

- areas of material non-compliance, describing how the RSL planning to improve in those areas
- timeframe for improvement
- confirm that the RSL has seen and considered appropriate evidence to support the level of assurance
- confirm the date of the meeting of the governing body or committee at which the Statement was considered and agreed

This Treasury Management Policy (TMP) is intended to support compliance with relevant regulatory requirements including the Standards of Governance and Financial Management, including the Standards of Governance and Financial Management.

The TMP supports the Board(s) and Officers in fulfilling their responsibilities and providing assurance and evidence to support compliance with relevant regulatory requirements within the Annual Assurance Statement or identify or assess areas where Wheatley and its subsidiary RSLs does not materially comply with the relevant regulatory requirements.

Classified as Internal

Glossary

Bond	A bond is a debt instrument issued in the capital markets. The issuer (in this case, the Group) borrows the principal amount of the bond from capital markets investors (generally pension funds, insurance companies, other long-term institutional investors), attracts a rate of interest (either on-going or rolled-up to the maturity date) with the principal amount becoming repayable on a single maturity date.
Capital market	A financial market where participants can issue new debt or buy and sell debt instruments (usually in the form of bonds).
Counterparty	Institutions such as Banks and institutional investors (such as pension funds, insurance companies etc.)
Credit rating	An evaluation of the credit worthiness of a counterparty, i.e. their ability to repay debt made by a credit rating agency. A summary table of all credit ratings has been included in Appendix 3.
Credit Rating Agencies	Companies that evaluate, assess and then rate the financial standing of Corporations and Institutions. There are three main credit rating agencies; Moody's, Standard & Poor and Fitch.
Derivatives	Financial Instruments that provides the opportunity of reducing risk exposures such as interest rate, inflation rate and exchange rate
Forward Rate Agreement (FRA)	A Legally binding agreement between two parties committing to swap related payments from variable rate into fix rates (or vice versa) at a Future Date
Interest Rate Cap	An agreement under which a maximum interest rate is agreed between the Bank and the borrower, known as the strike rate. This allows the borrower to take advantage of low interest rates up to the agreed strike rate in return for a premium. This premium is similar to an insurance premium, in that it allows for the borrower to be protected against increases in interest rate above the strike rate.
Interest Rate Collar	Where an interest rate cap is an agreement for a maximum interest rate exposure, and an interest rate floor agrees a minimum interest rate cost, an interest rate collar is a contract combining an interest rate cap and an interest rate floor and hence sets a lower and upper limit on the interest rate exposure of the borrower. The borrower therefore **buys** a cap and **sells** a floor
Interest Rate Swaps	Legally binding agreement between two parties to exchange (swap) interest streams with different characteristics i.e. fix to variable and variable to fix, on the same principle amount.

Classified as Internal

~~Wheatley Housing Group~~

~~Treasury Management Policy~~

Wheatley Housing Group

Treasury Management Policy

Contents

ABBREVIATIONS

The following abbreviations are used in this report:

~~WHG~~	~~Wheatley Housing Group~~
~~The Group~~	~~Wheatley Housing Group~~
~~GHA~~	~~Glasgow Housing Association~~
~~Cube~~	~~Cube Housing Association Ltd~~
~~WLHP~~	~~West Lothian Housing Partnership~~
~~LHA~~	~~Loretto Housing Association Ltd~~
~~DCH~~	~~Dunedin Canmore Housing Association Ltd~~
~~Barony~~	~~Barony Housing Association Ltd~~
~~GFL~~	~~Glasgow Housing Association (Funding) Ltd~~
~~Yourplace~~	~~Yourplace Property Management Ltd~~
~~LHL~~	~~Lowther Homes Ltd~~
~~DCE~~	~~Dunedin Canmore Enterprise Ltd~~
~~LCL~~	~~Loretto Care Ltd~~
~~WFL1~~	~~Wheatley Funding No.1 Ltd (WFL1)~~
~~WFL2~~	~~Wheatley Funding No.2 Ltd (WFL2)~~
~~WGC~~	~~Wheatley Group Capital plc~~
~~SPV~~	~~Special Purpose Vehicle (GFL)~~
~~EIB~~	~~European Investment Bank~~
~~FRA~~	~~Forward Rate Agreement~~
~~ISDA~~	~~International Swap Dealers Association~~

Care	Wheatley Care
Cube	Cube Housing Association
DCH	Dunedin Canmore Housing
DGHP	Dumfries and Galloway Housing Partnership

EIB	European Investment Bank
FRA	Forward Rate Agreement
GHA	Glasgow Housing Association
ISDA	International Swap Dealers Association
LHA	Loretto Housing Association Ltd
LHL	Lowther Homes Ltd
SPV	Special Purpose Vehicle
The Group	Wheatley Housing Group
WFL1	Wheatley Funding No.1 Ltd (WFL1)
WFL2	Wheatley Funding No.2 Ltd (WFL2)
WGC	Wheatley Group Capital plc
WHG	Wheatley Housing Group
WLHP	West Lothian Housing Partnership
YourPlace	YourPlace Property Management Ltd

1. Introduction

1.1 *Wheatley Housing Group*

~~The~~ Wheatley Housing Group ("the Group") is the largest housing, community regeneration and care provider in Scotland with ~~turnover of over £235m~~owned and managed housing stock of ~~50~~98,000 units across ~~thirteen~~eighteen local authority areas in central and south-west Scotland.

The Group provides, through its subsidiaries, an extensive range of high-quality stock and services to the social housing, mid and full-market rental sectors, as well as specialist care services and property management services~~ across the central belt of Scotland~~.

~~WHG comprises of the following subsidiaries:~~

- ~~***Glasgow Housing Association (GHA)*** - a Registered Social Landlord (RSL) which is the largest in Scotland and manages circa 43,000 affordable homes in Glasgow~~
- ~~***Cube Housing Association (CHA)*** - a Registered Social Landlord (RSL), with 3300 affordable homes across the West of Scotland~~
- ~~***West Lothian Housing Partnership (WLHP)*** - a Registered Social Landlord (RSL), with 380 affordable homes across the West Lothian~~
- ~~***Loretto Housing Association (LHA)*** - a Registered Social Landlord (RSL), with 1000 affordable homes across West and Central Scotland~~
- ~~***Dunedin Housing Association (DCH)*** - a Registered Social Landlord (RSL), with 5000 affordable homes across Edinburgh and East of Scotland~~
- ~~***Barony Housing Association (Barony)*** – a Registered Social Landlord (RSL) providing affordable homes and care services across east central Scotland~~
- ~~***Loretto Care (LC)*** - is a wholly owned subsidiary of LHA and provides care and support services to tenants across the Group and also 700 other service users~~
- ~~***Lowther Homes Ltd (LHL)*** – an asset holding commercial subsidiary which owns 236 mid and full-market apartments and manages a further 110 mid market units on behalf of the group RSLs. LHL is helping the group diversify its income streams and expand its range of tenures, enabling it to keep rents low and create sustainable mixed tenure communities.~~
- ~~***Dunedin Canmore Enterprise (DCE)*** – an asset holding commercial subsidiary which owns 113 mid and full-market apartments and manages mid market units on behalf of Dunedin Canmore Housing.~~
- ~~***YourPlace*** was formed to carry out a factoring service on behalf of GHA for properties sold under the right-to-buy. Now providing services across the group and seen as a leading property management company is Scotland with over 24,000 customers.~~

- ~~**Wheatley Funding No. 1 Limited** (WFL1) was formed as a special purpose vehicle to facilitate funding the group RSLs from bond issuance and bank lenders. WFL1 borrows funds from the bond issuer and banks and on-lends them to the RSLs within the group in accordance with the criteria set out in the Intercompany Loan Agreements.~~

- ~~**Wheatley Funding No. 2 Limited** (WFL2) was formed as a special purpose vehicle to facilitate funding market rented activities of LHL within the overall group funding structure.~~

- ~~***Wheatley Capital PLC*** – a company set up to facilitate issuance of social housing bonds in the public bond market.~~

- ~~***Wheatley Solutions Ltd*** - a commercial company set up to deliver back office services across the Group.~~

- ~~***Wheatley Foundation*** – a charitable company set up to deliver wider community benefit initiatives across the group. It is funded from gift aid of surpluses from commercial subsidiaries and donations from group RSLs as well as any public and private sector grants which may be available.~~

1.2 Group Governance

Wheatley Group Board

The Wheatley Group Board is responsible for overseeing the strategic direction of the entire Group, the subsidiaries and the subsidiary Boards. It is responsible for oversight of all of our Group funding arrangements, risk management processes, and control systems.

The Wheatley Board has the ability to exercise constitutional control over its subsidiaries through provisions contained in each subsidiary's constitution.

Subsidiary Boards

Each subsidiary within the group has its own Board of Directors. The subsidiary Boards oversee the delivery of their own subsidiary strategies which contribute to the overall ~~group~~Group strategy ~~by each of the subsidiary.~~. Each subsidiary must also enter into an Intra-~~group~~Group Agreement with Wheatley Housing Group Limited. This Agreement governs the parent/subsidiary relationship and the various obligations on each party.

RSL Borrowing Group

~~All asset owning~~ With the exception of DGHP, all RSLs ~~in the group –~~ (GHA, Cube, WLHP, Loretto, DCH ~~and Barony are charitable entities. In the group funding arrangements, all the RSLs)~~ are funded as ~~a~~ one RSL Borrowing Group through WFL1. ~~To facilitate this, and enable charitable~~ The RSL Borrowing Group pools all assets ~~to be pooled together~~in a single security trust deed for funding purposes, ~~the RSLs~~with each RSL cross ~~guarantee~~guaranteeing each other's obligations to WFL1. Care has access to a total £1m standby facility via the RSL Borrowing Group. It is intended that DGHP will join the RSL Borrowing Group in due course, and their main debt facilities (with M&G and RBS) have been structured to allow this to occur, subject to the lenders' final credit approval along with all internal governance approvals from the WHG Board and all of the RSL Subsidiary Boards, and WFL1 Board.

Commercial Activities

The group's commercial activities ~~will be~~are funded through WFL2. ~~Other than the~~ In 2011, £30m of funding was put in place via a £30m loan from GHA to Lowther Homes~~,~~ ~~there will be no~~. It is anticipated that this loan will be increased to £45m in 2020/21. There is no additional funding of commercial subsidiaries from the charitable RSLs. No guarantees shall be provided by the charitable RSLs over the liabilities of commercial subsidiaries.

1.3 *Corporate strategy – long term platform for growth*

~~The~~he Wheatley Group corporate strategy for 2015-20, "*Investing in our Futures*" was successfully delivered, with Treasury focused on diversifying the funding base, maintaining a strong credit rating and providing a strong and stable long-term platform for growth; all of which were delivered.
The launch of the new strategy for 2020-25, has been delayed pending revision resulting from the business interruption caused by Covid-19.

The ~~sets out ambitious~~key objectives for the ~~Group. These include development/acquisition of circa 3,500 new housing units across all tenures over the next six years.~~
Group's
~~The groups~~ financial and treasury management ~~needs to allow the group~~will be the maintenance of a strong platform for the Group to build on its existing strengths, ~~allow growth and achieve increased financial stability~~facilitating efficient growth, delivering on its strategic ambitions in the medium to long term~~.~~ and maintaining a strong credit rating from S&P.

2. Policy objectives

In order to achieve its ambitious strategic objectives, the ~~group~~Group needs clear financial and treasury management principles as well as robust controls in place.

Treasury management is the management of the ~~group's~~Group's cash flows, funding, banking, investments, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

The Group maintains and operates a Treasury Management Policy (GTMP) in line with the CIPFA guidance on Treasury Management in the Public Services (~~2011),~~most recently updated in 2017). In 2015, the Scottish Housing ~~Regulators treasury management guideline issued April 2012 and current best practice. The policy~~Regulator placed an ongoing requirement on housing associations to comply with this document. This GTMP sets ~~down~~out the framework for managing ~~of~~ the ~~group's~~Group's overall financial position as well as investing and managing ~~of~~ its cash, raising loans and managing financial risks.

Key objectives of this policy are to:

- define the ~~group's~~Group's financial objectives and set out a clear set of Golden Rules for management of treasury activities

- ensure that the Group's loan portfolio represents the optimum balance of risk in interest rate, loan maturity, flexibility and fixed rate exposure

- ensure that the Group's officers have the authority to take the necessary action as and when required in response to changes in the financial markets

The overriding objective of this policy is to be risk averse, whilst allowing the ~~group to grow and diversify its operations, and each subsidiary to achieve their full potential,~~Group to achieve its strategic objectives within agreed financial parameters.

In order to ensure that the Group's treasury objectives are ~~observed~~achieved, this policy is to be reviewed at least every three years, to bring it in line with changes in the financial markets, economic environment, changes in the housing sector as well as changes in the group's strategic direction. Any changes to this policy will be approved by the Wheatley Group Board.

This policy is accompanied by the Group Treasury Operational Framework, which sets out the detailed mechanical arrangements for how the group's funding and liquidity arrangements will work in practice, including securing and drawing down funding at subsidiary level, cash management and management of financial risks, including compliance with funding agreements.

3. Delegation of Responsibilities

The Board of WHG has the overall responsibility for WHG's funding and investment strategy and the approach to managing financial risk, via a variety of mechanisms such as approval of the Group business plan, setting of treasury policies, appointment of the Group Chief Executive (who appoints other senior officers, e.g. the Group Director of Finance) and delegation of duties to execute policy objectives.

The Board of WHG has responsibility for:

- setting out the financial direction for the Group, including principles of Group financial management such as key financial ratios the ~~group~~Group is required to meet
- raising of finance for the Group and signing off any new borrowing facilities via ~~group~~Group funding vehicles, WFL1 and WFL2
- setting treasury policies in relation to cash investments, intra-group borrowing and management of financial risks
- management of strategic financial risks for the Group, including interest rate risk, inflation risk, funding risk, liquidity and counterparty risk
- interest rate hedging using financial instruments
- monitoring overall cash flow and financial performance across the Group, including compliance with funding agreements and Golden Rules at WFL1 and WFL2 level

The subsidiary Boards are responsible for:

- setting their own financial plans within the parameters set out by the Group Board
- managing their cash flow to ensure delivery of objectives by drawing down funding from ~~group~~Group funding vehicles, WFL1 and WFL2, in line with their approved business plans
- ensuring compliance with intra-group funding conditions as agreed with WFL1 and WFL2
- management of operational financial risks in line with this policy and approved subsidiary business plans

The Group Treasury Management Policy sets out the framework for all treasury activities and no activity can be undertaken unless specifically authorised within the policy.

The Group Director of Finance has authority, within the parameters of this policy, to:

- drawdown and repay loans at WFL1 and WFL2 level under any committed debt facility and incur associated fees and interest costs as set out in the related funding documentation
- enter into negotiations on new borrowings and incur reasonable costs such as loan ~~costs~~arrangement fees in doing so in line with the Scheme of Financial Delegation.

- manage the Group's funding relationships

- monitor compliance with WHG's loan covenant obligations and Board-approved Golden Rules and take remedial actions as appropriate

The Group's commitment to any new borrowing and any material changes to existing borrowing facilities must be approved by the Wheatley Board.

Based on the approved business plan for each subsidiary (within the overall ~~group~~Group business plan), the debt drawdown and repayment profile for the year will be agreed for each subsidiary, subject to any subsequent changes approved by their Boards. The ~~Group Treasurer~~Director of Treasury has authority to manage subsidiary borrowings within the ~~group~~Group funding arrangements and in line with agreed subsidiary debt profiles.

Under guidance from Group Director of Finance, designated treasury staff are authorised to place surplus cash balances with the institutions approved in accordance with this policy.

Should the Group Director of Finance propose to undertake a transaction which is not in accordance with this policy, the proposed transaction and reasons for it will be presented to the Wheatley Board for its approval before the transaction is carried out.

Given the Group's ~~very~~ dynamic business plan, pace of growth and the related impact on the funding requirement, the Group Director of Finance will review the size, relevance and cost of the Group's debt facilities at least annually.

The Group will maintain clear Board approved mandates for all debt and banking transactions.

4. Financial Management

4.1 The Group will operate subject to the following key financial principles:

- Each subsidiary will be financially viable in its own right ~~– there should be no cross-subsidy between Group entities~~ (any subsidiary transactions will be subject to intra-group dealing principles set out in section 9 of this policy).

- There is a clear differentiation between charitable activities of the Group, which are run for the benefit of customers, and the Group's commercial activities, which are focused on maximising surpluses which can be re-invested in the Group's charitable activities

- The Group will deliver value for its customers by being as efficient as possible, ~~-~~by sharing services, using economies of scale and robust contract management

- Any investment decisions will be supported by a strong business case

- The Group will operate in accordance with Board approved set of financial Golden Rules, which will help ensure we remain financially strong and sustainable as a Group.

The Golden Rules are derived from key measures used by the credit rating agencies to assess the Group's financial strength as well as financial covenants agreed with the Group's funders. These have been developed to fit our specific financial profile and circumstances~~,~~ and are comparable with similar approaches adopted by other large English Registered Social Housing Providers. These will be subject to annual review by the Wheatley Group Board.

~~***4.2 The Group's Golden Rules***~~Financial covenants are~~:~~

~~Liquidity:~~

- ~~Retain enough immediately available funds (ie. free cash and secured undrawn debt capacity) to always meet our cash requirements for the next 12 months plus an additional 25%~~

- ~~Contracted developments (plus 25% contingency) to be covered by cash and available facilities~~

~~Gearing:~~

- ~~Not to exceed 70% (using Moody's definition)~~

- ~~Gross Debt per unit not to exceed £25,000~~

~~Interest Cover:~~

- ~~Years 1-7, based on adjusted Moody's I&E measure definition above, set at: 0.4x in year 1, 1.0 years 2 & 3 and 1.1x years 4-7~~

~~The Moody's definitions referred to above have been included in Appendix 2.~~

~~The Golden Rules have been developed to take account of any financial covenant requirements with the Group's lenders. They will be~~ a key focus of management and Board-level reporting ~~so that~~and are closely monitored to ensure any necessary actions can be taken as soon as possible.

To ensure the financial sustainability of the Group as a whole, the Wheatley Group Board will also annually approve ~~an overall Group framework for financial viability, with reference to the Golden Rules (as set out above), overall limits for subsidiary income and expenditure,~~a Group and subsidiary business plans and a Group-wide range for rent increases in the following year.

Each subsidiary will ~~develop~~also approve their own financial plans within the parameters set by the Group Board,~~ but~~ taking account of local markets and priorities.

Robust treasury management practices, as set out in this policy, will ensure that the ~~group~~Group can monitor compliance with the Golden Rules, manage any associated risks and implement mitigating actions as appropriate to ensure long term financial strength of the Group.

~~Treasury management is the management of the Group's cash flows, funding, banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The sections below set out the key principles of treasury management for the Group.~~

5. Liquidity Management

~~Treasury management is the management of the Group's cash flows, funding, banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The sections below set out the key principles of treasury management for the Group.~~

The Group will ensure that it has enough cash available in the right place and at the right time to meet all payment needs, by:

- Understanding cash needs across the ~~group~~Group through detailed cash flow forecasting
- Ensuring minimum cash balances are maintained and any surplus cash is invested in line with key agreed investment principles
- Ensuring sufficient committed liquidity lines are available to be drawn as required to meet payment needs
- Maximising, as far as possible, the transparency and efficiency of cash positions across legal entities, taking account of any regulatory requirements
- Identifying and establishing diverse contingent funding sources

5.1 *Understanding cash flow*

WHG will ensure at all times that for ~~each of the group subsidiaries~~the RSL Borrowing Group, DGHP and Lowther/YourPlace, the following cash flow forecasts are available:

- ~~a 12 month~~An annual, in-year cash flow forecast, based on approved business plan projections
- a rolling 12~~-~~-week cash flow forecast (in-year, but supplemented by daily cash data as we approach year-end)
- a detailed daily cash flow forecast for the immediate 4~~-weeks~~-week period

A variance analysis on projected figures is also to be produced and reported to the Group and subsidiary Boards on a quarterly basis to validate actual cash position against business plan projections and agree corrective actions as appropriate.

The 12 month rolling cash flow forecast for subsidiaries will be consolidated to produce ~~group~~Group cash flow projections – for the RSL Borrowing Group, the commercial subsidiaries and the whole of the Wheatley Housing Group.

Detailed cash flow projections and past trends will then be used to identify the size and timing of cash requirements across the ~~group~~Group to ensure that cash can be made available as required.

5.2 *Managing cash*

The Group will maintain cash levels that reflect its liquidity requirements~~, as well as being flexible enough to capitalise on favourable interest rates compared to the assumptions in the relevant Business Plan and prevailing market rates, if these are considered to be beneficial in meeting its long term borrowing and investment needs.~~ (as set out in the Golden Rules).

The Group will work within the following cash limits:

- an amount within each RSL subsidiary, or as pooled RSL Borrowing Group cash, ~~to reflect~~which covers the total sum ~~required to meet their monthly~~to cover a

minimum of one months' cash requirement, being day-to-day running costs as well as any planned refurbishment costs and development activities
- an amount within each commercial subsidiary to cover a minimum of 2 ~~weeks~~weeks' cash requirement at any time.

~~In order to minimise interest costs on any cash balances, amounts drawn on available loans will be the net of total receipts including rental receipts and total costs which should include the cost of any investment programme.~~

~~In addition, grants~~Grants from the Scottish Government will be used for their defined purpose and in priority to interest-bearing debt finance.

5.3 Committed credit lines

At all times the Group will ensure that it has access to committed credit lines that when taken together with any cash balances, mean there is sufficient ~~liquidity~~ available funding to meet the ~~group's cash requirements for the following 12 months~~Group's liquidity Golden Rule.

This will be achieved through the Group having in place committed term and revolving loans as well as flexible access to overdraft facilities.

However, the objective will be to maintain a minimum of £10m intra-group positive cash position and only utilise these overdraft and credit line facilities when necessary or when it is financially beneficial, so as to minimise annual interest costs and to ensure day to day cash management can be managed efficiently.

~~Furthermore, as far as possible, the RSL Group will have in place intra-day credit facilities of a minimum of £15m to ensure that day to day cash management can continue to be performed most efficiently.~~

5.4 Managing working capital

~~The Group will control supplier credit periods to enhance its cash position and place less reliance on short-term finance. Creditors payment terms will be 28 days or longer unless special arrangements have been agreed in the contract. Wherever possible, creditors will be encouraged to increase their credit period to at least meet the minimum 28-day period.~~

The Group will pay suppliers promptly, and in line with its legislative obligations as a Contracting Authority under Scottish procurement regulations.

The Group and all its subsidiaries will ~~further~~ pursue a debt control policy, particularly with regard to rental income, service charges and recharges to owner-occupiers. This will include maintaining an effective sales ledger system where outstanding debts are followed up regularly.

~~For~~ As at end-May 2020, for subsidiary RSLs within the Group, ~~a large percentage~~c.60% of their tenants ~~(currently circa 70%)~~ rely on housing benefit, with a further c.15 – 20% receiving Universal Credit (UC) for some or all of their rental payment. ~~Receiving housing~~ The rate of tenants moving onto UC has accelerated as a result of the Covid-19 pandemic. Rental income will continue to be impacted by a migration to UC, reflecting the intent of HM Government to simplify the benefits regime into one system by 2023.

There are different implications for the Group's working capital requirements depending on what benefit ~~payment~~regime the tenant receives.

Housing benefit is paid directly from the relevant local ~~authorities is therefore~~authority to the Group, the receipt of which is crucial in allowing WHG to manage its cash flow. A system is to be maintained to allow for all outstanding housing benefit payments to be followed up as and when due.

UC was introduced in staged rollouts from late 2013, and now covers all of Scotland. UC replaces six benefits, including housing benefit, and merges them into one monthly sum paid in arrears. The 5-week delay in receipt of the initial UC payment leads to all tenants being in arrears once their benefits have moved from housing benefit to UC. Mitigating actions are in place with a Group Universal Credit team set up in 2019 to support customers and staff to meet the challenges of the new benefit regime.

Any further changes to the benefits system, e.g. as a result of UK Government's Welfare Reforms, will be closely monitored so that their potential impact on rent arrears can be well understood and mitigating actions put in place to maintain stability of the Group's income.

For all commercial subsidiaries, effective debt control policy is crucial with any late payments followed up promptly and appropriate action taken to safeguard income as early as possible.

6. Borrowing policy

The Group's borrowing policy sets out the parameters within which the Group and all of its subsidiaries can raise and manage funding from any sources to facilitate delivery of their objectives, including growth, whilst ensuring that that the overall cost of funds is optimised.

6.1 Sources and types of funding

a) Public subsidy

Around 95% of the Group's operations are in the affordable housing market, with any new developments supported by public subsidy from the Scottish Government. Furthermore, there may be other grants available for specific purposes, such as for implementation of green measures as part of new housing design (or retro-fitted to existing housing) or for wider regeneration and community benefit initiatives.

The Group will ensure that any available public subsidy is fully explored and utilised as appropriate before private finance is used to fund capital improvements, new developments and wider community benefit activities of the ~~group~~Group.

Equally, if there are any grants or other forms of government support (e.g. guarantees) available for any parts of the commercial activities of the group, these will be fully explored and implemented alongside any private finance.

b) Private finance

The key method of financing the Group's activities in the long term will be ~~secured~~ finance in the form of approved debt instruments, methods and techniques, as set out in this policy. In general, our funding is on a secured basis, but we will explore unsecured debt where this is available and cost effective, delivering value for money.

The following debt instruments are approved methods of long~~-~~-term private finance for the Group:

- banks and building societies; authorised and regulated by the Financial Conduct Authority (FCA), or their EU equivalent for European banks;
- the capital markets by way of issuing bonds either via an intermediary or in WHG's own name;
- Pension Funds / Insurance Companies – via issuance of bonds or a direct placement of debt instruments;
- not for profit borrowing vehicle companies/intermediaries such as The Housing Finance Corporation;
- Leasing Companies;
- Public bodies such as the Scottish Government or Scottish National Investment Bank;

- Bank of England / HM Treasury funding schemes, including the Covid Corporate Financing Facility or “CCFF”; and

- syndicated loans where there is a syndicate of lenders drawn from the above.

Each debt counterparty, such as banks and financial institutions, will be assessed with reference to their credit quality as part of the borrowing decision process. This will include assessment of counter-party credit ratings, level of government support (if any) and any other market information available at the time.

Any new sources of long~~-~~-term funding and funding structures involving any of the subsidiaries will be subject to prior approval by ~~WHG~~Wheatley Group Board.

~~In line with the recent trends in the funding markets, it is recognised that~~As a result of onerous capital requirements for banks following the credit crisis in 2008, their ability to provide long-term funding remains constrained. Capital market funding and direct lending from pension funds and insurance companies ~~will increasingly become~~are the key sources of long~~-~~-term funding (> 10 years) for the RSL Borrowing Group, supplemented by flexible shorter~~-~~-term bank funding~~.~~ (≤ 10 years).

In addition to long term funding, to ensure liquidity of the group, short- and medium~~-~~-term funding such as bank overdrafts as well as term loans and revolving ~~bank loans~~ credit facilities will also be put in place alongside long term bond and our legacy bank ~~finance.~~ financing.

Furthermore, project specific funding arrangements may be put in place to fund the Group’s wider activities in line with its strategic objectives and alongside any public funding options available for specific projects to create optimum funding solutions.

The mix of different forms of funding will be selected and maintained to meet the specific business needs of the ~~group~~Group and all its subsidiaries.

We will maintain diversity of funders, and types of funders, to minimise reliance on single lenders and/or single sectors of the financial markets.

6.2 Group funding structure

~~In deciding on the appropriate~~The Group’s funding structure ~~for the Group, especially in relation to which Group entity should be involved in raising funding for specific business activities,~~has been developed giving consideration ~~will also be given~~ to~~:~~ the following factors:

- ~~registered social landlords~~Registered Social Landlord regulation and charities law,
- appropriate intra-group lending arrangements,
- requirement for guarantees
- security considerations
- interaction with existing funding facilities and compliance requirements
- risk profile and overall funding costs to the group

~~Taking the above into account the~~The Group ~~will implement a group~~ funding structure ~~which~~is set out below. The structure recognises the requirement to separate the funding for our ~~nature of the group's RSL~~ regulated charitable activities ~~separately~~ from any commercial activities~~, with related risks appropriately ring-fenced.~~.

Wheatley Funding No. 1 Limited (WFL1)

1. ~~The Group funding structure will allow the RSL Group~~

WFL1 funds the regulated, charitable RSLs in the Group (with the current exception of DGHP) through a structure known as the RSL Borrowing Group. New partners joining the Group main accede to the RSL Borrowing Group arrangement from time to time. WFL1 allows the these RSLs to be funded collectively, within a cross-guarantee structure which allows all RSL assets to be pooled for security purposes. In this structure financial covenants and other funding conditions will be tested at the RSL Borrowing Group level, however, each RSL will also monitor and report funding compliance at the subsidiary level.

2. **Bilateral agreements**

There are a small number of bilateral loan agreements in place for the Wheatley RSLs. While the presumption is that all new lending will be put in place for the RSLs via WFL 1, from time to time direct bilateral loans may be considered if they provide value for money or advantageous commercial terms. Bilateral arrangements may also exist if they have been inherited as part of new partnership arrangements. In such cases the presumption will be these will be novated, where possible and subject to value for money, to the WFL1 RSL Borrowing Group structure.

3. **Wheatley Funding No. 2 Limited** (WFL2)

WFL2 funds the commercial activities of the Group, which currently include Lowther Homes Limited and YourPlace. There is a security trust deed in place for WFL2, and the assets are secured to WFL2 lenders. There is no cross-guarantee between WFL1 and WFL2.

6.3 Balanced debt portfolio

In order to create a loan portfolio that is complementary to WHG's overall objectives, our aim is to ensure that the Group's debt portfolio has the right balance of:

- ~~fixed, variable and possibly index linked borrowing (if appropriate)~~
- Fixed and variable
- long~~,~~-, medium- and short~~-~~-term debt
- term and revolving loans
- secured and unsecured loans
- funding costs and funding conditions/restrictions

a) Interest rate management

In determining the mix of the loan portfolio and the split between different interest rate bases (fixed~~,~~ or variable~~ or index linked~~), the Group will include the following areas in its assessment:

- The shape of the yield curve, to give an indication of where short~~-~~-term and long~~-~~-term rates are expected to move in the future.

- The sensitivity of the annual surplus to movement in interest rates in line with the approved Business Plan.

- The availability, and cost, of financial derivatives to allow the Group to manage the mix between the various rate types effectively.

- The loan offers, particularly via the capital markets and/or private placement markets, which are generally only available on fixed rate terms.

- The effect on the Group and its subsidiaries' ability to meet their financial covenants and ratios.

It is recognised that the Group has ~~large existing~~legacy fixed rate arrangements on the majority of the Syndicate and EIB debt in place (embedded in the Group's funding arrangements~~),~~) and terminating these may incur significant breakage costs. ~~As capital market~~ All long-term funding ~~via issuance of~~ arranged since 2014 (bond issuance in 2014, retained bond issuance in 2015, private placements with BlackRock in 2017 and 2018, private placement with M&G in 2019) has all been on a fixed rate/coupon ~~bonds will form~~basis, resulting in a ~~core element of the Group's debt portfolio and replace some of the variable rate bank debt, this will further increase the~~high proportion of fixed rate debt for the Group~~ in~~ .

It is common for RSLs to have a higher percentage of fixed rate funding than other real estate operators which tend to have a 70% fixed / 30% floating to allow for asset disposals and the resultant repayment of debt without incurring breakage costs on associated fixed rates or other hedging agreements. Due to the ~~short term.~~long-term

~~Index Linked~~	~~0~~	~~10~~

nature of asset-ownership RSLs do not commonly make material asset disposals and therefore the certainty of fixed interest costs, particularly where the cost of funds is below the assumed rates in the business plan, allows for potential financial outperformance.

~~Therefore, due~~Due to existing fixed rate arrangements and ~~planned bond issuance~~availability of current long-term funding being primarily on a fixed rate basis only, the Group's debt portfolio ~~will have~~has a very high proportion of fixed rate debt~~, especially in~~ (at the ~~early years.~~target maximum amount). However, as a long~~-~~-term policy objective, the Group will endeavour to achieve the following interest rate split target for its debt portfolio over the three-year period of this policy:

	Target minimum %	Target maximum %
Fixed	~~50~~75	~~70~~95
Variable	~~30~~5	~~50~~25

To do this, the Group will ~~continually~~frequently monitor the market and the ~~marked to market position~~ associated termination costs on existing fixed rate arrangements and look for opportunities to restructure and/or break these ~~at minimum cost~~ when market conditions allow, ~~so that~~to reduce the proportion of fixed rate bank loans ~~can be significantly reduced~~ over time.

Due to the fluid nature of the Group's business plan and timing of income receipts ~~eg~~e.g. grants and housing benefit, the ~~target proportion of interest rate basis~~ targets above will be ~~viewed as an on-going objective across the term of the debt rather than at a single point~~reviewed every three years in ~~time~~line with this policy being updated.

In addition, in aiming to achieve these target proportions, the Group will ~~take into account~~consider the market environment and the market's expectations for future interest rate movements. ~~In this light, the~~The actual position may vary from ~~the~~ target, ~~but any~~on the basis that the variance ~~will~~may be justified ~~on the basis of either~~due to an improvement in funding costs (versus the business plan assumptions) and/or~~,~~ to ~~further alleviate~~reduce risk given the market conditions.
~~WHG Treasury will review the~~
The Group's hedging arrangements will be reviewed at least annually as part of the approval of the business plan~~,~~ and following any changes to ~~its~~the Group's debt profile. ~~WHG~~Ongoing Treasury reporting will assess the risks associated with the hedge profile ~~not falling within~~being outside the targets set out above and ~~consider~~consideration will be given, where appropriate, to aligning ~~its hedged to~~ the fixed:floating loans ratio, ~~taking into account~~considering market conditions ~~at the time~~ and associated costs at the time. Throughout the year ~~WHG~~the Director of Treasury will monitor the arrangements in relation to the ongoing funding requirements and current level of market interest rates ~~and cancel any surplus fixed rate profile if appropriate. The Board will be kept informed of any changes to the hedge profile.~~.

Use of derivatives

The use of derivatives such as Swaps, Forward Rate Agreements (FRAs), Collars, and Caps and Rate Locks is permitted for the sole purpose of managing interest rate ~~and in some cases inflation rate risks~~risk (hedging). The use of derivatives requires to be approved by the governing body of the entity for which they will be used~~.~~ as well as the Wheatley Group Board. WHG will not use derivative instruments ~~as a means~~ to maximise return but to protect its risk exposure and to control interest costs. This means that derivatives may only be used to hedge a loan, or loans, and that there should be no scope to make profits or losses as a result of such derivatives ~~but merely to mitigate risk.~~. From time to time this may have a significant cash flow cost, or benefit, to the Group ~~and it~~(which will ~~therefore ensure that~~be offset by a corresponding benefit, or cost, on the underlying loan instrument) and any such ~~an~~ impact ~~is viewed~~will be assessed over the full period of the hedging instrument in question.

~~Under~~Stand-alone derivatives create the ~~existing fixed rate arrangements,~~ potential for the ~~RSL Borrower Group's lenders (rather than~~hedge counterparties (most likely, the ~~RSLs or WFL1) acted as a counter party~~lending bank(s)) to ~~interest rate swaps in the market~~demand a cash collateral amount to cover current and ~~embedded~~future exposure under the contract, the ~~hedges in the loan facilities. This means that WFL1 or the Group RSLs are not direct parties to these derivatives, but the effect~~terms of ~~the hedges is passed on to them by the banks via fixed rate on~~which would be negotiated under a ~~proportion of the WFL1 and Group RSL's loan facilities.Similarly, a portion of Dunedin Canmore Enterprise's loans is also hedged through embedded fixed rates.~~

~~As part of the Lowther Homes' £50m loan facility agreement with RBS and BoS (via WFL2), there is a requirement that 60% of drawn loans are hedged through entering into~~ Credit Support Agreement. Any decision to enter into stand-alone ~~interest rate swaps based on negotiated International Swaps and Derivatives Association (ISDA)~~

~~documentation. This means that Lowther is a direct counterparty to stand alone~~ derivatives~~, however there is no provision for cash collateral calls, where cash would need to be put up to cover variations in the marked to market value of the derivatives. The Group is permitted to enter into these transactions,~~ at WFL1 or subsidiary level would be subject to prior Group Board approval~~ and within parameters set out in Appendix 3 to this policy~~.

b) Debt maturity profile

The ~~group~~Group will be funded by a combination of:

- long dated ~~bond~~capital markets or institutional funding (via private placements) with bullet repayment – our core source of long~~-~~-term funding for the Group going forward

- legacy long dated bank funding with a pre-agreed repayment profile – expected to reduce over time as loans mature and long~~-~~-term bank funding is replaced with other forms of finance

- shorter dated bank loans, primarily via revolving credit facilities which can be drawn, repaid and redrawn without penalty, with maturities between 5 and 10 years, providing operational liquidity, development funding facilities and project specific funding

The Group will ensure that its loan portfolio is sufficiently balanced in relation to the maturity (i.e. date of repayment) of its loans so that there is no undue pressure on cash flow to make debt repayments and ~~any~~ refinancing risk can be managed in a timely manner.

To achieve that objective, the Group will endeavour to ensure that no more than ~~15~~10% of its total loan maturities fall due for repayment in the immediate ~~12 months~~18 month period and no more than ~~30~~25% within the immediate 5 years unless such higher repayments (e.g. when bonds mature) can be supported by latest approved business plan cash flows.

In order to minimise any potential liquidity problem this could present, the Group will endeavour to negotiate loans and/or access capital markets for new funding to allow for refinancing to take place as and when necessary and in good time of any loan maturity. In addition, the Group will run a continuous charging programme over new build assets (known as the 'Build to Secure' programme) to provide availability of security to support new fund-raising.

Maturing bonds will be refinanced no less than 18 months in advance of their maturity date, unless otherwise approved by Group Board. Extreme market conditions may lead to an extension of this timetable; the Director of Treasury will update the Board in the event that funding market conditions deteriorate. The Group can utilise any agreed overdraft facilities or short~~-~~-term working capital facilities as required to ensure that liquidity is always maintained~~ at all times.~~. Significant refinancing risks will be reported to the ~~Board~~Boards of WHG, WFL 1 and WFL 2 through the rolling 12-month cash flow and treasury reporting.

c) Term and revolving loans

In order to ensure sufficient liquidity for the Group and to help manage the overall cost of borrowing, the Group will ensure that its overall debt portfolio has sufficient revolving credit line facilities alongside term debt.

The Group will endeavour to have at least ~~£40m or 5~~10% of its overall bank loan facilities as revolving loans at any time. As at 31 March 2020, RCF committed funds stood at 15.7% of total funding availability. This will allow it to repay some of its bank debt if the cash flow allows it to minimise interest costs, whilst maintaining access to liquidity as and when required.

d) Secured and unsecured debt

In line with the nature of the Group's core activities the ~~group~~Group will raise long term funding for RSL activities mostly on a secured basis, where the ~~RSLs~~RSLs' affordable housing assets will be used for debt security purposes.

Similarly, funding for asset based commercial activities, such as development or acquisition of new housing for market rental ~~or sale~~ will be raised mostly on a secured ~~based~~basis.

The Group may also raise, where appropriate, funding on unsecured basis, however, this will be considered on a case by case basis by reference to funding strategy, cost of funds, and other funding conditions.

e) Cost of funds and funding terms

The main objective is to maintain the lowest average cost of funds that is possible for the Group to achieve whilst ensuring that ~~the debt portfolio is fit for purpose and allows~~loan covenants and security requirements allow sufficient flexibility for the Group to achieve its strategic objectives.

As far as possible, the Group will seek to utilise the cheapest source of funds, however ~~it may be beneficial to take a more expensive loan option if it allows the flexibility to repay and keeps the overall cost of borrowing lower.~~each offer will be assessed in a holistic manner, considering not just the headline cost of funds, but will evaluate all aspects of the funding (arrangement fees, non-utilisation fees, covenants, security requirements, prepayment terms, anticipated drawdown cycle from the business plan, consent requirements etc.).

The Group will also ensure that funding terms relating to its debt facilities are not too onerous, in particular:

- that there is sufficient headroom in financial covenant targets when tested against latest business plan projections

- other funding conditions, including funders' consent requirements allow the ~~group~~Group to achieve its strategic objectives

The overriding objective in terms of loan covenants is to ensure that any existing covenants, and their associated Golden Rules, are met comfortably. The definitions used to arrive at these ratios will be negotiated to the Group's best advantage.

Business plans at subsidiary level and across the whole group are presented 6-monthly to the Boards (in February and August Board cycles). This analysis includes anticipated funding requirements and the corresponding impacts on covenants and Golden Rules.

Compliance with loan/bond covenants is ~~particularly important~~of critical importance and ~~will be~~is monitored on a monthly basis in relation to ~~both,~~ actual covenant ratios achieved and future projections, so any corrective actions can be taken as soon as possible.

Additionally, WHG will avoid onerous covenants on new (and existing) facilities, even if this is at the price of a marginal increase in the borrowing rate. The aim will be to reduce (if not eliminate) any negative covenants that will restrict the Group in carrying on its normal business.

f) Currency Risk

WHG is not permitted to take on direct currency risk (i.e. to enter into a loan denominated in a currency other than GBP). Board approval is required in the event of indirect currency exposure associated with fundraising (i.e. for a USD private placement whereby WHG may be required to indemnify currency losses in the event of an early redemption of the debt).

6.4 *Asset security*

The Group will aim to maximise the use of its property stock for the purpose of security to support its debt facilities. In so doing, it will seek to achieve a valuation type that will maximise the valuation arrived at and a loan to value covenant that will optimise the amount that can be drawn on any given level of property security.

Release of property security as a result of revaluations in line with the loan documentation will happen as a matter of course~~.~~ where permitted by lenders (notwithstanding security to cover mark-to-market exposures on embedded fixed rate loans on the syndicate position). Housing stock released will therefore be available for supporting additional loans on new properties or other schemes the Group may wish to undertake where possible.

~~All affordable~~The Build to Secure programme will continue to charge new build assets such that these become available for security purposes within 24 months of completion.

Affordable housing assets of the RSLs in the RSL Borrowing Group will be pooled for asset security purposes to the extent required to support borrowings and cross-guarantees will be in place between the RSLs to facilitate the pooling of security. All RSLs in the Borrowing Group will be required to have sufficient assets to support their debts. A Build-to-Secure programme is in place with the Wheatley Development team to accelerate the timing between completion of homes and those assets becoming available for security purposes.

The Group will avoid granting floating charges to its lenders wherever possible.

6.5 *Management of funding relationships*

The Group will have a number of funding relationships:

- with banks, either on syndicated or bilateral basis
- with bond investors and credit rating agencies
- with any other institutional investors

- with the Scottish Government, via a capital markets intermediary

It is crucial that all funding relationships are managed effectively. The Group will ensure that:

- all financial and management information is prepared to a high standard and provided promptly to all funders

- compliance with all financial covenants is monitored regularly as part of monthly management accounts and any issues resolved in good time

- all other funding conditions, as set out in funding agreements, are monitored and any requirements met as appropriate

The Group will endeavour to maintain close relationship with its funders, in particular, on key strategic issues, as appropriate, to ensure continued support of the Group's strategy ~~going forward~~.

~~Once the~~ *6.6 Credit Rating Agencies*

The Group ~~obtains a~~has had credit ~~rating, there is a requirement to manage~~ratings in place for the following legal entities with Standard & Poor's ('S&P') since 2014:

- Wheatley Housing Group Limited
- The Glasgow Housing Association Ltd
- Wheatley Group Capital PLC

The management of the on-going relationship with ~~the credit rating agencies, as they continually re-assess~~S&P is critical due to their continual assessment of the creditworthiness of the Group and that of the affordable housing sector in the UK on behalf of bond investors. ~~The Group will therefore insure that~~S&P, and any successor or additional credit rating ~~agencies~~agency, are recognised as a key stakeholder for the ~~group~~Group and are managed according to the same principles as any of the Group's funders. Meetings (via telephone or in person) are held quarterly, with an annual review held in person in the Group's Head Office with S&P representatives and senior Group management.

While some external issues (sovereign downgrades and sector-wide impacts resulting from governmental change) remain outside the control of the Group, the Group maintains strategic focus on maintaining and, where possible, improving credit rating and outlook across the three rated entities.

The Group will also manage and maintain relationships with bond investors, with updates in the form of meetings ~~taking place~~, webinars and/or material provided in our Investor Relations section of the Group's website on at least an annual basis to explain the Group's latest performance ~~and~~, plans and Environmental, Social & Governance (ESG) reporting.

As at our May 2020 review, the three entities are rated as A+ Stable.

~~6.~~7. Investment policy

As a general principle, the Group will ensure that any surplus funds are invested without risk exposure to the capital invested, whilst at the same time maximising the return on investment and allowing ease of access in terms of liquidity. The bulk of short-term liquidity for the Group is provided by way of Revolving Credit Facilities ('RCFs') rather than via cash deposits, to avoid the inefficiency of drawing term debt to place it on deposits prior to use.

7.1 Principles of investment

WHG will follow these key principles in the order stated before any investment decision is made:

- Security of Capital - Protection of sum invested. The key aim will be to ensure that the capital amount invested is not put at risk. Investments that could see the erosion of the capital value are ~~therefore~~ prohibited. The return received on the funds invested ~~would therefore be~~is the only aspect of the investment that ~~would~~will fluctuate in line with market movements.

- Investment Liquidity - Allowing ease of access to funds particularly in the early years to meet ongoing investment and development expenditure. To achieve this, the Group will invest a proportion of available surplus funds in products that allow easy access, so that surplus cash can be utilised, as far as possible, to meet liquidity requirements before debt drawdown. As set out above, the majority of investment liquidity will be provided via RCFs to ensure we meet our Golden Rule on liquidity requirements.

- Investment Return – Total return on investment (~~inc.~~including interest income). This is to ensure that a sufficient financial return ~~is made~~ to ~~assist the Group in meeting its financial obligations. Interest received on funds invested would assist the Group in meeting its obligation as this income would go towards the Group's available financial resources and~~ reduce net funding costs. The current low interest rate environment versus the Group's legacy average cost of funds means that any net investment return is negative, thus the preference for the Group to have liquidity provided via RCFs rather than holding cash on deposit.

- Diversification of Investment Portfolio – Ensuring that funds are invested in different instruments, with different high~~-~~-quality counterparties and for different maturities to reduce investment risk.

7.2 Approved investment instruments

The following investment instruments are approved for the purposes of investing surplus funds:

- Short term money market deposits (up to 12 months) and with Weighted Average Maturity (WAM) of no more than 90 days

- Bank and Building Society Deposits with institutions approved for investment in line with this policy

- Triple ‘A’ Rated Money Market Funds (AAA) – only where the Net Asset Value is constant (i.e. the principal amount is guaranteed)

- UK Government Securities (Gilts & Treasury Bills) – directly or via a government securities fund

These instruments will allow for the Group’s key investment principles of protecting the capital sum whilst at the same time maintaining liquidity, investment diversification and achieving a reasonable return at all times.

~~Any funds used for investment purposes~~The Group will ~~be closely monitored for exposure to any non-cash asset backed instruments which may be affected by~~not invest in Money Market Funds where the capital repayment is at risk as a result of market volatility~~.~~ (Variable NAV funds are not permitted).

7.3 *Investment counterparties*

The key policy objective is for the Group to avoid the risk of dealing with a counterparty with a less than acceptable credit rating. The counterparty credit rating is based on a set of recognised credit criteria which will allow the Group to make an informed decision on the creditworthiness of any investment counterparty and level of any potential exposure involved.

It is therefore essential that the Group maintains an objective credit policy, which is based on independent professional opinion. In assessing the credit quality of the organisations it is to invest in, the Group will therefore rely on the following credit rating agencies:

- Fitch Ratings,

- Moody’s Investor Service, and

- Standard & ~~Poors Corporation~~ Poor’s

The credit ratings of counterparties should only be considered as a starting point in analysing the credit quality of any counterparty and other credit risk factors will be considered before a decision is made. Other credit factors which will be taken into account include market data, financial press, financial support from the government, etc.

~~To maintain a relationship~~We may have to consider placing deposits with existing lenders or operational bankers to the Group (or any other lender or banking provider which may in future join the group funding arrangements through a sell down of debt in the market or as a lender to the Group’s new partners), ~~there may be no option but to accept their ratings~~ even ~~if~~where they do not meet the minimum threshold as set out in the table below~~. Group treasury will monitor their credit ratings and establish some controls by applying maximum investment limits~~ for ~~amounts which can be invested with~~ relationship reasons. In these ~~counterparties. Should there be a significant deterioration in any of the lenders’ or~~ exceptional circumstances, we would only be permitted to place investments with the Group’s existing or future lenders and/or operational bankers ~~credit ratings that would provide any concerns, this will be immediately reported to~~ if the ~~Board, indicating the relevant action taken to either reduce, limit or eliminate exposure.~~credit rating is two notches lower than our minimum threshold.

Other than with its lenders, as a policy objective, WHG will seek to invest funds with the financial institutions which have the following credit ratings:

Short Term	Fitch	F1+, F1, F2
	Moody’s	P-1, P-2
	S&P	A-1+, A-1, A-2
Long Term	Fitch	AAA, AA+, AA, AA-,A+
	Moody’s	Aaa, Aa1, Aa2, Aa3, A1
	S&P	AAA, AA+, AA, AA-,A~~+~~+, A

It ~~needs to~~should be noted however, that in the current financial environment these ratings may not be achieved. Therefore, an exception ~~can~~may be ~~made~~considered to allow investments with major UK clearing banks which have a large amount of UK Government support (e.g. Royal Bank of Scotland~~ and Lloyds Banking~~), provided Wheatley Group~~).~~ Board approval is obtained in advance of any such deposit being placed.

Using external ~~credit rating~~treasury advisers as necessary, the investees / borrowers list will regularly be reviewed and updated. In so doing, the Group will consider the length of time the investment is to be outstanding with any one counterparty, based on their credit rating at the time. It will also fully consider the minimum credit quality of the ~~counter party~~counterparty in comparison to that of its group position. This will mean that, if the ~~counter party~~counterparty concerned forms part of a wider group structure, the rating to be considered may extend to the wider group in relation to the nature of support given by the parent to that subsidiary counter party. In particular, the legal obligations within the group will need to be fully considered.

The ~~Group Treasurer~~Director of Treasury is responsible for monitoring credit ratings of the Group’s borrowing and investment counterparties and reporting any material changes in their credit quality as part of the quarterly treasury report to the Wheatley Group Board.

7.4 *Amounts invested with any one institution*

The Group will~~ endeavour to~~ diversify its investment portfolio by investing funds with high quality counterparties to prevent over-reliance on a small number of counterparties. The following amounts are across the entire group (i.e. in relation to funds held by WFL1, RSL Borrower Group, WFL2 including the commercial subsidiaries and DGHP).

The following principles will be applied in determining the amount to be invested with any one institution:

- The maximum investment amount allowed with the Group’s key relationship and account bank (currently RBS) will be the higher of £~~30m~~125m or ~~50~~70% of the total amount available to be invested.

- The maximum investment amount allowed with each of the Group’s key relationship banks ~~(currently Lloyds Banking Group) ~~will be the higher of £~~15m~~100m or ~~40~~50% of the total amount available to be invested.

- The maximum investment amount allowed with the Group's other relationship banks or any one ~~counter party~~counterparty other than the relationship banks will be the higher of £~~10m~~75m or ~~30~~40% of the total amount available to be invested.

- To further minimise the risk of exposure to any one investor, the maximum term any investment can be made for is limited to ~~12~~6 months, after which time the counterparty credit risk needs to be reviewed.

Should there be a need to invest outside of these terms, ~~specific Board~~ the approval of the Board of the relevant funding entity (WFL 1 for our RSLs and WFL 2 for our non-RSL entities) will be sought. In such a case, the Board will be required to approve the method of investment, having sought suitable independent professional advice as necessary.

It is possible that interest could be 'rolled over', with accrued interest on the investment, when it matures with any one ~~counter party.~~counterparty. In such circumstances accrued interest on the deposit is realised and ~~as a consequence~~consequently a breach of the credit limit for the ~~counter party~~counterparty may occur. Therefore, rollovers of principal plus interest are permitted subject to a limit excess of 10% of the maximum permitted amount to be invested with any one institution. However, the Group is to ensure at all times that interest left to accrue on the capital sum will not be at the expense of drawing down loan funds to meet the costs of the business plan.

As a general principle, the Group is not permitted to invest surplus funds if this would ~~results~~result in drawing down debt funding to meet business plan requirements as in a normal market borrowing rates are higher than investment rates and ~~this~~ would result in "negative arbitrage". Therefore the Group will aim to have liquidity provided via Revolving Credit Facilities, rather than drawn funds placed on deposit.

7.5 Investment return

The Group will ensure at all times that the rate received for invested funds is the best possible rate available in the market at the time for that type of investment, taking account of ease of access, maturity and credit quality of the investment counterparty.

To achieve this, the Group will use available market information and, if necessary, investment brokers to obtain market quotes and benchmark the total return on any proposed investments. For the purpose of this calculation, the total investment return will include the cost of transfer of funds and any administration charge involved in investing with an institution other than the Group's main bankers. The Group's main bankers will therefore act as a benchmark to other financial institutions meeting the Group's investment criteria.

~~7.~~8. Financial risk management

Effective management of financial risks is key to the long~~-~~-term financial viability of the Group and its ability to achieve its strategic objectives.

The principal financial risks the Group is exposed to and key mitigating actions the Group will employ to manage these are:

Risk	Risk description	Category	Risk management
Liquidity risk	Risk that the Group may have insufficient financial resources to meet day to day fluctuation in working capital and cash flow (e.g. insufficient cash available to pay staff salaries or supplier invoices when they become due), which may result in breach of contracts	Low	− Robust cash flow forecasting and management − Working capital management − Sufficient cash and committed credit lines available to cover ~~12 months cash requirement~~Golden Rules on liquidity − Alternative contingent funding sources available (overdraft)
Funding risk	Risk that the Group may be unable to raise the required finance in the market or pay too high a price for its finance and thus reduce overall resources available to deliver its objectives. Risk that funding ~~agreement covenants and~~ information requirements are not met, and if ~~remaining unresolved could~~unable to be resolved within specified remediation periods, will result in a breach. Risk that covenants are breached Risk of insufficient security availability to meet minimum asset cover requirements	Medium	− Robust financial management in line with Golden Rules − Strong relationship with lenders, bond investors and rating agencies − New funding arranged at least ~~12~~18 months before maturity of existing funding subject to 'normal' market liquidity − ~~Covenant and information requirements added to Covalent, with notification~~Notification and reporting ~~process introduced~~processes across the Group in the Treasury and Finance teams − Projections of covenants prepared with mitigation actions taken in advance to avoid forecast breaches − Build to Secure asset charging programme to provide security availability for the Group on a continuous basis
Interest rate risk	Risk that the Group's interest costs on its borrowings may be unaffordable if market interest rates rise or that in the environment of falling interest rates, the Group may not be able to take	Medium	− Interest rate exposure monitored and understood − High proportion of fixed rate debt − Regular assessment of market projections for short-- and long~~-~~-term interest rates

	advantage of lower market interest rates in relation to its borrowings (opportunity cost)		− Existing hedges monitored for effectiveness − Action taken as opportunities arise to align hedging position with policy
Inflation risk	Risk that the Group's cash flow will be adversely affected either through reduction in income or increase in costs as a result of movement in general inflation rates	Medium	− Monitoring of net inflation exposure − Matching of inflation linked income and expenditure ~~−~~ Robust procurement − ~~Indexed linked borrowing as appropriate~~
~~Counter-party~~Counter party credit risk	Risk that the Group may incur financial losses if a counterparty to treasury transactions fails and is unable to fulfil their obligations.	Low	− regular monitoring of ~~counter-party~~counterparty credit ratings − counterparty exposure and credit rating limits − diversification of investments − monitoring of financial health of counterparty banks, using CDS data where appropriate
Risk of fraud	Risk that the Group's employees involved in treasury transactions and transactions involving cash may act fraudulently to their personal benefit Risk that criminals target the Group's payment systems and/or send fraudulent invoices for processing or instruct payments over the telephone (Phishing, email cloning or other fraud approaches) Risk that the Group's employees with payment cards spend the Group's money on personal transactions	Low	− clear procedures for dual authorisation of treasury transactions − segregation of duties − regular audit of Group Treasury − external training (from our relationship banks and/or law enforcement) to keep updated on new fraud approaches − limits on individual payment cards with maximum £200 per transaction and monthly limit of £1000 as standard. Higher limits require sign-off from Executive Team member or senior manager as appropriate.
Credit rating downgrade risk	Risk that the Group is downgraded to BBB+ or lower by S&P / BBB+ by Fitch / Baa1 by Moody's (if more than one rating is in place, the lowest rating will apply), will trigger a cancellation of availability and a demand to prepay all drawn debt after a 30-day	Medium	− while the Group is in control of the various internal financial disciplines which influence the credit rating agencies (liquidity, gearing, strategy & management, financial performance, asset quality), there are external factors (UK and Scottish Government benefit regimes; UK and Scottish sovereign ratings)

	consultation period on the EIB facilities Risk that a prepayment event on EIB facilities will trigger cross-default provisions for other WFL facilities		which remain outside of the Group's control − we have quarterly updates with S&P with the credit rating agency being a key relationship for the Group − Clear strategic objective to maintain credit rating at least at A+ stable

Implementation of the key principles of this Treasury and Financial Management Policy is central to managing financial risks.

In order to manage the above risks effectively, the Group will:

- Maintain an up to date ~~Treasury~~ Risk Register (note the Treasury sections form part of the Finance Risk Register reporting) to identify, record and measure all financial risk
- Implement strategies for dealing with specific risks
- Regularly report on effectiveness of these risk mitigation/management strategies
- Annually re-evaluate the whole risk management approach and process taking into account treasury policies and linkages between different risks

The Group will have a focused and cohesive reporting framework in place for Board members as well as the Senior Management team. This will include the following:

- Compliance with this policy
- Reporting on the Group's interest rate, inflation and credit risk exposure and how they are managed
- The actual position of the Group's financial covenants and forward covenant projections
- Sensitivity tests highlighting the effect on the Group's financial results and ability to meet the financial covenants and ratios.

~~8.~~9. Inter-company dealing

9.1 Key principles

As the Group comprises charitable regulated RSLs and commercial subsidiaries it is crucial that any financial inter-company transactions are carried out in accordance with clear principles~~ and~~, any applicable law, regulatory guidance, and Golden Rules approved by the Wheatley Group Board.

The financial inter-company transactions covered by this policy fall into the following key categories:

- Funding transactions within the ~~group~~Group funding arrangements

- Financial support between group companies – inter-company loans other than from ~~group~~Group funding vehicles WFL1 and WFL2

- Financial investment in ~~group~~Group companies – e.g. equity investment

- Any cash pooling arrangements for the purpose of maximising return on surplus cash

As a general principle, all inter-company dealings (e.g. loans, deposits, equity investments etc~~)~~.) between a charity and non-charity may only be allowed if they are ~~considered to be~~ for the “benefit of the charity”. It will be for the relevant governing body of those involved in the dealings to formally approve any such arrangements. To satisfy this requirement, the following factors need to be present:

- any inter-company loans/deposits are adequately secured

- a commercial rate of interest is charged on loans/deposits

- there is a proper agreement showing the terms of the loan/deposit e.g. repayments

- the right balance of risk and return can be demonstrated on any inter-company investments, such as equity investments

In particular, for any inter-company loans, where a charity is funding a non-charitable ~~group~~Group entity, the charity will have sufficient documentary evidence showing careful and proper due diligence was carried out on the financial viability of the that entity prior to making a loan.

Based on the above, any inter-company investments and borrowings between ~~group~~Group entities will always be carried out on ~~arms~~an arm’s length basis. In each case, detailed legal and tax advice will be sought to ensure that the optimal arrangements can be put in place, ~~which~~to meet any and all applicable legal, regulatory and taxation requirements.

To ensure that the return on surplus cash balances of the RSL Borrowing Group can be optimised, the Group will endeavour to pool any cash surpluses of charitable RSLs within the Group, subject to satisfying any legal and taxation requirements (based on specialist external advice).

Similarly, any cash surpluses of commercial subsidiaries will be pooled for investment purposes.

The Group will seek ~~appropriate~~ legal, tax and ~~tax~~ financial risk management advice as appropriate as to the most efficient method of managing surplus funds across the Group to maximise the benefit of the potential group arrangements within any known restrictions.

9.2 Group funding arrangements

The Group will operate ~~group~~ funding arrangements which recognise the different credit profiles of the charitable and non-charitable group activities and allow associated risks to be adequately ring-fenced~~.~~:

- Charitable regulated activities of the Group RSLs will be funded as one RSL Borrowing Group through Wheatley Funding No.1 Limited ('WFL1') or stand-alone for DGHP, to allow a degree of flexibility in how funding is used by the RSLs and so that charitable assets can be used most effectively for security purposes. New RSL partners may operate outwith this RSL Borrowing Group for a period, but there will be a general presumption that (subject to value for money and their continued ability to meet their strategic objectives) any such partners will seek to accede to the RSL Borrowing Group arrangement.

- Activities of commercial subsidiaries will be funded separately through Wheatley Funding No.2 Limited ('WFL2') with funding terms appropriate to their credit profile.

There will be no cross guarantees between the charitable and non-charitable parts of the ~~group~~Group funding structure.

a) Funding charitable RSL Borrowing Group

For funding purposes, the RSL Borrowing Group will therefore be seen as one entity, with all affordable housing assets of the RSLs pooled for debt security and financial covenants set on the combined financial results of the RSL Borrowing Group. To achieve this, all of the charitable RSLs will provide cross-guarantees for each other's obligations to WFL1.

However, in accordance with the Group's key financial management principles and ~~golden rules~~Golden Rules, each RSL will need to demonstrate financial viability in ~~their~~its own right~~ in that they need to~~. This means each RSL must be from able to support any debt from WFL1 ~~with~~from their own assets and cash flows~~. This will ensure that there is no effective cross subsidy between group entities~~.

Whilst overall lender financial covenants will be set at the RSL Borrowing Group level, each subsidiary will also be required to ~~procure that they satisfy~~ operate within a business plan, with prior agreement from the ~~RSL~~Wheatley Group ~~covenants on a collective basis. To achieve this, each subsidiary will need to meet covenants at a level~~ Board as well as agreed ~~with WFL1 and appropriate to their circumstances. This will enable RSL Group covenants to be monitored and met from each RSL's cash flows and allow the subsidiaries to further demonstrate sound financial management within the parameters of the RSL Group.~~

~~To enable RSLs to develop new housing using the group funding arrangements, they will be permitted to draw down funding from WFL1 as long as the units, once developed, provide sufficient security for the required debt and subject to having sufficient cash flows to service the debt and meet internally agreed financial covenants during the development period. Each development funding proposal will be assessed against these criteria before the funding can be drawn~~by its own Board.

Within the RSL Group funding arrangements, total funding costs of WFL1, including interest costs (taking account of any fixed rate arrangements), commitment fees and any other related fees, will be shared between the RSLs based on their individual proportion of the overall WFL1 funding. This will be done through an all~~-~~-in funding rate on borrowing, ~~the same~~which will be equal for all RSLs which will be subject to monthly review and notified via the issue of a monthly loan statement~~.~~. This statement sets out:

~~The Group will endeavour to transition the funding arrangement for any new charitable RSLs joining the Group to those of the existing RSL borrower group through WFL1 over time. This may involve either consolidating or refinancing any existing debt of the new RSLs from the WFL1 funding arrangements and will be subject to WFL1's funding capacity and ability to raise additional finance within the group funding arrangements (most likely from capital markets) at that time. The Group will also ensure that all group funding conditions can continue to be met when a new RSL is acceded to the funding structure.~~

~~b) Funding non-charitable activities~~

- Interest rate
- Loan amounts (opening, closing and drawdowns/repayments)
- Year-to-date interest paid and current month interest due

b) Funding non-charitable activities

Non-charitable activities of the Group, in particular the development/acquisition of market rented housing, will be funded through WFL2 and be subject to separate asset cover and financial covenant requirements agreed with commercial lenders.

Lowther Homes will be funded by a combination of equity investment from ~~Wheatley Housing Group~~GHA and commercial debt.

10. Treasury Controls & Compliance with Policy

~~WHG will ensure that there are adequate internal~~Internal control procedures over treasury activities will be maintained so that any material fraud or error is either prevented entirely, identified and reported as soon as it occurs in line with the Group's Risk Management Framework.

To achieve this the following principal controls will be applied:

- Segregation of duties between treasury dealing and related ~~confirmations/~~accounting~~.~~ and recording. All dealing activity (over the phone or on-line) will be undertaken within the Treasury department whilst any related ~~confirmation and~~ recording of treasury transactions will be performed independently within the Financial Reporting department~~ of the Financial Controller~~

~~-~~ Controls ~~of~~over disbursement of funds will include dual ~~signatories~~authorisation for all payments, documented for each bank in a formal bank mandate.

- The bank mandates will always be kept up to date and apart from listing all bank signatories will also identify individuals authorised to transact ~~foreign exchange and~~ money market deals on behalf of WHG~~.~~

- All ~~treasury deals~~term deposit transactions will be accompanied by a dealing ticket, authorised by two signatories as per the relevant bank mandates~~.~~

- All relevant treasury limits will be monitored for headroom prior to any deals being transacted and any breaches reported to the Board as soon as practicable after they are identified.

In order for WHG to ensure compliance with all its funding agreements, ~~including syndicated loan agreements and public grant agreements,~~ there ~~will be a monthly process~~are delegated controls in place ~~to monitor all WHG obligations under these agreements. Officers across~~between the treasury team and other key officers within the organisation~~, identified as responsible~~ (primarily in the new build development team, asset team, property legal, governance and procurement).

The areas for monitoring ~~specific obligations under the agreements, will confirm compliance on a monthly basis.~~by these officers include asset disposals / acquisitions, fulfilling the terms of public grant obligations, arranging corporate reorganisations, the granting or release of security, entering into third party agreements in relation to payment or other financial products and changes in key management roles such that Treasury ~~will have~~can manage any consent requirements and/or information undertakings proactively with our lenders.

While Treasury undertakes an overview monitoring role~~ and the~~, it is the responsibility of the key officers to provide timely information in respect of the areas set out above. The Board will be advised of any issues which may lead to default under these agreements.

A detailed treasury report, covering all aspects of treasury activities as set out in this policy, will be submitted to the Group Board at least quarterly. This will include:

- analysis of cash flow and borrowing requirement together with an explanation of variances to previous forecast

- analysis of group debt position, including debt drawn to date, any repayments due, cost of borrowing and forecast borrowing position for the next ~~quarter~~24 months
- compliance with funding agreements, including financial covenants
- management of financial risks, including review of hedging arrangements, counterparty exposures and credit ratings where term deposits have been placed

~~A treasury section will also be included quarterly in the subsidiary finance report, covering cash flow performance against approved business plan, intra-group funding position and compliance with funding conditions, including key financial ratios as well as setting out key financial risks and how these are being managed.~~

There will be ongoing training for all staff in the Group Treasury function to ensure they keep abreast of all latest treasury developments. The Group Treasury function will be subject to regular review by internal audit.

11. SHR Annual Assurance Statement

In February 2019, the SHR published its guidelines on Annual Assurance Statements ("AAS"). These statements represent a key part of the SHR's regulatory risk assessment and are intended to provide assurance to stakeholders, including the SHR, that the Group's RSL's comply with relevant requirements of Chapter 3 of the Regulatory Framework, including:

- all relevant standards and outcomes in the Scottish Social Housing Charter;
- all relevant legislative duties; and
- the Standards of Governance and Financial Management.

The AAS is required to cover and include the following:

- areas of material non-compliance, describing how the RSL planning to improve in those areas
- timeframe for improvement
- confirm that the RSL has seen and considered appropriate evidence to support the level of assurance
- confirm the date of the meeting of the governing body or committee at which the Statement was considered and agreed

This Treasury Management Policy (TMP) is intended to support compliance with relevant regulatory requirements including the Standards of Governance and Financial Management, including the Standards of Governance and Financial Management.

The TMP supports the Board(s) and Officers in fulfilling their responsibilities and providing assurance and evidence to support compliance with relevant regulatory requirements within the Annual Assurance Statement or identify or assess areas where Wheatley and its subsidiary RSLs does not materially comply with the relevant regulatory requirements.

Glossary

Bond	A bond is a debt instrument issued in the capital markets. The issuer (in this case, the Group) borrows the principal amount of the bond from capital markets investors (generally pension funds, insurance companies, other long-term institutional investors), attracts a rate of interest (either on-going or rolled-up to the maturity date) with the principal amount becoming repayable on a single maturity date.
Capital market	A financial market where participants can issue new debt or buy and sell debt instruments (usually in the form of bonds).
Counterparty	Institutions such as Banks and institutional investors (such as pension funds, insurance companies etc.)
Credit rating	An evaluation of the credit worthiness of a counterparty, i.e. their ability to repay debt made by a credit rating agency. A summary table of all credit ratings has been included in Appendix 3.
Credit Rating Agencies	Companies that evaluate, assess and then rate the financial standing of Corporations and Institutions. There are three main credit rating agencies; Moody's, Standard & Poor and Fitch.
Derivatives	Financial Instruments that provides the opportunity of reducing risk exposures such as ~~Interest Rate, Inflation Rate~~interest rate, inflation rate and ~~Exchange Rate~~exchange rate
~~*Counter Party*~~	~~Institutions such as Banks, you might invest funds or transact derivatives with.~~
Forward Rate Agreement (FRA)	A Legally binding agreement between two parties committing to swap related payments from variable rate into fix rates (or vice versa) at a Future Date
~~*Interest Rate Swaps*~~	~~Legally binding agreement between two parties to exchange (swap) interest streams with different characteristics i.e. fix to variable and variable to fix, on the same principle amount.~~
Interest Rate Cap	An agreement under which a maximum interest rate is agreed between the Bank and the borrower, known as the strike rate. This allows the borrower to take advantage of low interest rates up to the agreed strike rate in return for a premium. This premium is similar to an insurance premium, in that it allows for the borrower to be protected against increases in interest rate above the strike rate.
Interest Rate Collar	Where an ~~Interest Rate Cap~~interest rate cap is an agreement for a maximum ~~Interest Rate~~ interest rate exposure, and an ~~Interest Rate Floor~~interest rate floor agrees a ~~Minimum Interest~~minimum interest rate cost, an ~~Interest~~interest rate ~~Collar~~collar is a contract combining an ~~Interest Rate Cap~~interest rate cap and an ~~Interest Rate Floor~~interest rate floor and hence sets a lower and upper limit on the interest rate exposure of the borrower. The borrower therefore **buys** a cap and **sells** a floor
~~*Credit Rating Agencies*~~	~~Companies that evaluate, assess and then rate the financial standing of Corporations and Institutions. There are three main credit rating agencies: Moody's, Standard & Poor and Fitch.~~

~~*Credit rating*~~	~~An evaluation of the credit worthiness of a counterparty, i.e. their ability to repay debt made by a credit rating agency. A summary table of all credit ratings has been included in Appendix 3.~~
~~Capital market~~	~~A financial market where participants can issue new debt or buy and sell debt instruments (usually in the form of bonds).~~
~~*Bond*~~*Interest Rate Swaps*	~~A bond is a debt instrument issued in the capital markets, under which the issuer owes the holders a debt and is obliged to pay them interest and to repay the principal at a later date. Bonds. The primary goal of the bond market is to provide a mechanism for long term funding.~~Legally binding agreement between two parties to exchange (swap) interest streams with different characteristics i.e. fix to variable and variable to fix, on the same principle amount.

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 June 2020

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1. Purpose

1.1 To provide an update on the Group's financial performance for the period to 31 May 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.

Classified as Internal

4. Discussion

Financial performance to 31 May 2020

4.1 The results for the period to 31 May are summarised below.

	Year to Date (Period 2)		
£m	**Actual**	**Budget**	**Variance**
Turnover	57.5	61.4	(3.9)
Operating expenditure	(44.6)	(49.6)	5.0
Operating surplus	**12.9**	**11.8**	**1.1**
Operating margin	*22.4%*	*19.1%*	
Net interest payable	(11.6)	(12.4)	0.8
Surplus	**1.3**	**(0.7)**	**1.9**
Net Capital Expenditure	(0.3)	16.3	16.0

5. Key issues and conclusions

5.1 The Group is reporting a statutory surplus for the two months to May 2020 of £1.3m, £1.9m higher than budget for the year. The favourable variance is driven by the changes in the operating model implemented in response to the COVID 19 pandemic including the introduction of a “life and limb” repairs service, changes to our frontline operations and the suspension of all but essential works in the investment programme.

5.2 Key variances against budget include:

- Grant income is £3.3m lower than budget due to the suspension of work on new build properties and the resulting delay to completion since the Scottish Government instruction to close all construction sites. This has also had an impact on net rental income in the RSLs and Lowther, which is £0.3m lower, as new build social and mid-market properties are not yet available to let.

- Other income is £0.3m unfavourable to budget; this is principally due to lower income billed to owners in YourPlace and lower levels of Care contract income with the filling of vacancies at some services taking longer during the lockdown. Contract costs are being managed to help manage the financial impact.

- In expenditure, staff costs are £1.5m lower driven by a claim made under HMRC’s job retention scheme for employees primarily in our repairs and investment functions and across Wheatley Solutions.

Classified as Internal

- Running costs are reporting a favourable variance against budget of £0.8m with lower levels of spend across the majority of subsidiaries as a result of the changes to the operation 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 £2.1m lower for the two months to May 2020. The service has been operating on a “life and limb” basis since late March driving the lower levels of spend. In our “in-house” repairs services in Dunedin Canmore and DGHP, costs include a claim for staff under the job retention scheme. A similar claim has been made by City Building for services provided to Wheatley subsidiaries in the west.

- Interest and financing costs are £0.8m 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. The group has cash balances available of £142.8m following a drawn down from EIB.

5.3 Net capital expenditure is £16.0m lower than budget. Within this new build spend is £14.6m lower. Spend reported of £1.9m relates to fees and retention payments only, with no activity taking place on any construction site since late March.

5.4 The core investment programme on existing stock is £3.7m 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 IT equipment purchased to enable home working for staff.

6. Key financial metrics – interest cover and debt per unit

6.1 Loan covenants are monitored monthly out-with the required quarterly submission of calculations and Board-approved management accounts of the RSL Borrower Group to funders. All loan covenants with respect to the RSL Borrower Group, WFL2 and DGHP were met as at 31 May 2020.

6.2 Excluding the variance on grant income recognised on the completion of new build properties, the underlying results for the RSL Borrowing Group are £3.3m favourable to budget. YourPlace and Lowther together are £0.4m favourable to budget and DGHP is £0.9m favourable.

6.3 The favourable performance against budget has improved the covenant position at 31 March 2020 outperforming the key measures in the financial projections as shown in the tables in appendix 1.

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 May 2020 were favourable to budget ensuring that these efficiency targets are met.

Classified as Internal

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 May 2020.

Appendices:

1: Wheatley Group Financial Report to 31 May 2020

Classified as Internal

Appendix 1: Wheatley Group Financial Report To 31 May 2020 (Period 2)

1a) Wheatley Group – Year to date

YTD (£k)	Year to 31 May 2020			Full Year Budget £'000
	Actual £'000	Budget £'000	Variance £'000	
INCOME				
Net Rental Income	49,885	50,174	(289)	302,231
Grant income	53	3,316	(3,263)	47,408
Other Income	7,539	7,870	(331)	41,776
Gain on Business Combination	-	-	-	-
Total Income	**57,477**	**61,360**	**(3,883)**	**391,414**
EXPENDITURE				
Employee Costs	13,334	14,808	1,474	88,446
ER/VR	33	129	96	1,209
Running Costs	8,182	8,912	730	47,541
Repairs & Maintenance	5,494	7,601	2,107	54,636
Other Group running costs	-	(1)	(1)	-
Irrecoverable VAT & bad debts	1,609	2,062	453	12,600
Depreciation	15,941	15,955	14	91,189
Demolition Programme	-	155	155	930
Total Expenditure	**44,593**	**49,621**	**5,028**	**296,549**
NET OPERATING SURPLUS	**12,884**	**11,739**	**1,145**	**94,866**
	22.4%	19.1%		
Gain/(loss) on sale of fixed assets	1	1	-	1,060
Net interest payable	(11,617)	(12,390)	773	(73,194)
STATUTORY SURPLUS/(DEFICIT)	**1,268**	**(650)**	**1,918**	**22,732**

INVESTMENT				
Total Capital Investment Income	3,658	5,777	(2,119)	63,626
Core Investment Programme	1,454	5,153	3,699	81,498
New Build Programme	1,862	16,485	14,623	121,875
Other fixed assets	672	443	(229)	6,819
Total Capital Investment Expenditure	**3,988**	**22,081**	**18,093**	**210,193**
NET CAPITAL INVESTMENT SPEND	**(330)**	**(16,304)**	**15,974**	**(146,567)**

The Wheatley Housing Group operating surplus for the 2 months ended 31 May was £12.9m, £1.1m favourable to budget. At the statutory surplus level, a surplus of £1.3m is reported showing a favourable variance of £1.9m to budget. The majority of income and expenditure lines are reporting lower than budget owing to the changes in the operation of the business during the lockdown.

Total income at £57.5m is £3.9m lower than budgeted:

- Net rental income is £0.3m unfavourable to budget and includes the impact of delays in new build completions within all of the RSLs, with work suspended on the new build programme following the instruction by Scottish Government to close all construction sites on 23 March.
- The suspension of the new build programme has also resulted in an unfavourable variance of £3.3m in grant income with 14 units at Auchinlea , 9 units at Kennishead and 20 units at Linkwood budgeted to complete by end of May. The £53k relates to grant on medical adaptations only.
- Other income is £0.3m lower than budget to May 2020. The unfavourable variance is linked to lower levels of income from owners for factoring services, with reduced staircleaning and ground maintenance services being provided.

Total expenditure is £5.0m favourable to budget:

- Employee costs are £1,474k favourable to budget mainly as a result of the claims received for staff under the Government job retention scheme. Claims have been received for both April and May to date.
- Running costs are £730k favourable to budget with the variance largely linked to the change in the operation of the business during lockdown which has resulted in lower than expected costs in a number of areas against budget. Cost of providing services to owners is £413k lower offsetting the reduction in service income reported above.
- Revenue repairs and maintenance expenditure is £2,107k favourable to budget. The service is being delivered on a “life and limb” only basis. Reductions are seen across all areas of repairs expenditure. The spend reported includes provision for an additional overhead payment of £1.1m to City Building for the Group’s share of the fixed costs of the repairs service after taking account of CBG’s claim for furloughed staff under the job retention scheme. Repairs costs are reported after taking account of similar claims for in house repairs staff in Dunedin Canmore and DGHP.
- Irrecoverable vat and bad debts are £453k favourable to budget across the Group.
- The net capital position is £16.0m lower than budget. Capital investment income of £3.6m has been received from Allia for the Dargavel site. Lower levels of capital expenditure is driven by the postponement of new works and closure of new build construction sites during the lockdown. Spend in core programme includes provision for a payment of £1.1m to CBG for the Group’s share of fixed costs. Core programme spend also includes essential works on boilers, major roofing works and cladding work. New Build spend relates to professional fees and capitalised staff costs only.
- Other capital expenditure of £672k, is £0.2m adverse to budget, mainly caused by additional IT spend to support staff to work at home during the COVID-19 lockdown.

Wheatley Group Financial Report
To 31 May 2020 (Period 2)

RSL Borrower Group

2a) RSL Borrower Group – Year to date

YTD (£k)	ACTUAL £'000	BUDGET £'000	VARIANCE £'000	Full Year Budget £'000
INCOME				
Gross Rental Income	40,657	40,691	(34)	245,157
Void Losses	(410)	(406)	(4)	(2,444)
Net Rental Income	40,247	40,285	(38)	242,714
Grant income	53	2,975	(2,922)	45,733
Other Income	1,859	1,832	27	12,442
Total Income	**42,159**	**45,092**	**(2,933)**	**300,888**
EXPENDITURE				
Employee Costs	8,926	10,002	1,076	59,081
ER/VR	33	129	96	773
Running Costs	4,459	4,741	282	28,062
Repairs & Maintenance	4,028	5,149	1,121	36,929
Irrecoverable VAT & bad debts	1,470	1,911	441	11,465
Depreciation	13,665	13,679	14	82,184
Demolition Programme	-	155	155	930
Total Expenditure	**32,581**	**35,766**	**3,185**	**219,423**
NET OPERATING SURPLUS	**9,578**	**9,326**	**252**	**81,466**
	22.7%	20.7%		
Gain/(loss) on sale of fixed assets	1	1	-	13
Net interest payable	(10,522)	(10,604)	82	(64,086)
STATUTORY SURPLUS/(DEFICIT)	**(943)**	**(1,277)**	**334**	**17,393**

INVESTMENT				
Total Capital Investment Income	3,658	5,777	(2,119)	60,210
Core Investment Programme	1,429	2,690	1,261	59,486
New Build Programme	1,862	14,873	13,011	108,819
Other fixed assets	672	443	(229)	4,515
Total Capital Investment Expenditure	3,963	18,006	14,043	172,821
NET CAPITAL INVESTMENT SPEND	**(305)**	**(12,229)**	**11,924**	**(112,611)**

The RSL Borrower Group operating surplus at the end of period 2 was £9.6m, £0.3m favourable to budget. At the statutory deficit level, a favourable variance of £0.3m is reported, resulting in a deficit of £0.9m for the year to date. The majority of income and expenditure lines are reporting lower than budget owing to the changes in the operation of the business during the lockdown.

Total income is £3.1m lower than budget:

- Net rental income is £38k unfavourable to budget across the RSLs. Rental incomes includes the impact of delays in new build completions within all of the RSLs, with work suspended following the instruction by Scottish Government to close all construction sites on 23 March.
- No grant income has been recognised in first two months related to new build completions, the budget included 14 units at Auchinlea , 9 units at Kennishead and 20 units at Linkwood which were previously expected to complete by end of May. The £53k relates to grant on medical adaptations only.
- Other income is £27k favourable to budget primarily due to lower lease income on MMR units charged to Lowther Homes, as a result of lower than expected completions in P12 of 2019/20.
- Total expenditure is £3.2m favourable to budget. All operating cost lines are reporting lower than budgeted spend in the year to date largely linked to the change in the operation of the business during lockdown which has resulted in lower than expected costs in a number of areas against budget.
- Employee costs are £1,076k favourable to budget mainly as a result of the claims received for staff under the Coronavirus job retention scheme. Claims have been received for both April and May to date.
- Total running costs are £282k favourable to budget with the variance largely linked to the change in the operation of the business during lockdown which has resulted in lower than expected costs in a number of areas against budget, and include additional costs of £421k through Wheatley Solutions for PPE.
- Revenue repairs and maintenance expenditure is £,121k favourable to budget. The service is being delivered on a "life and limb" only basis. Reductions are seen across all areas of repairs expenditure. The spend for the month includes provision for an additional overhead payment of £1.1m to City Building for the Group's share of the fixed costs of the repairs service after taking account of CBG's claim for furloughed staff under the job retention scheme. Repairs costs are reported after taking account of similar claims for in house repairs staff in Dunedin Canmore.
- Net capital expenditure is £11.9m lower than budget. Capital investment income of £3.6m has been received from Allia for the Dargavel site. Lower levels of capital expenditure is driven by the postponement of new works and ongoing construction during the lockdown. Spend on core programme includes provision for a payment of £1.3m to CBG for the Group's share of fixed costs attributable to the capital programme. Other spend in core porgramme relates to essential works on boilers, major roofing works and cladding work. New Build spend relates to professional fees and capitalised staff costs only.

2b) GHA – year to date

	Year To May 2020 Actual £ks	Year To May 2020 Budget £ks	Year To May 2020 Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	£30,436	£30,446	(£10)	£183,732
Void Losses	(£243)	(£211)	(£31)	(£1,275)
Net Rental Income	**£30,194**	**£30,235**	**(£41)**	**£182,457**
Other Income	£1,448	£1,364	£84	£8,648
Grant Income	£0	£2,940	(£2,940)	£34,259
Total Income	**£31,642**	**£34,539**	**(£2,897)**	**£225,364**
EXPENDITURE				
Total Employee Costs	£6,890	£7,830	£940	£46,149
ER / VR	£33	£129	£96	£773
Direct Running Costs	£1,684	£1,964	£280	£11,223
Running Costs - Group Services	£1,325	£1,283	(£42)	£7,696
Revenue Repairs and Maintenance	£2,748	£3,583	£835	£27,517
Irrecoverable VAT and bad debts	£1,402	£1,727	£325	£10,362
Depreciation	£10,272	£10,272	£0	£61,632
Demolition and Tenants Compensation	£0	£155	£155	£930
TOTAL EXPENDITURE	**£24,353**	**£26,943**	**£2,590**	**£212,428**
NET OPERATING SURPLUS / (DEFICIT)	**£7,288**	**£7,596**	**(£307)**	**£12,936**
Net operating margin	*23.0%*	*22.0%*	*1.0%*	
RTB Income	£0	£0	£0	£0
Interest payable & similar charges	(£7,845)	(£8,258)	£413	(£49,553)
STATUTORY SURPLUS / (DEFICIT)	**(£556)**	**(£662)**	**£105**	**(£36,617)**

INVESTMENT	Year To May 2020 Actual £ks	Year To May 2020 Budget £ks	Year To May 2020 Variance £ks	Full Year Budget £ks
Total Capital Investment Income	**£0**	**£1,974**	**(£1,974)**	**£15,200**
Total Expenditure on Core Programme	£1,055	£1,171	£115	£47,045
New Build & Other Investment Expenditure	£1,085	£9,682	£8,597	£44,959
Other Capital Expenditure	£628	£378	(£250)	£3,257
TOTAL CAPITAL EXPENDITURE	**£2,769**	**£11,231**	**£8,462**	**£95,261**
NET CAPITAL EXPENDITURE	**£2,769**	**£9,257**	**£6,488**	**£80,061**

- **Key highlights year to date:**
- Operating surplus of £7,288k is £307k unfavourable to budget. After taking account of financing costs, the statutory deficit of £556k is favourable to budget by £105k. The majority of expenditure lines are reporting lower than budget owing to the changes to the operation of the business during the lockdown.
- Net rental income of £30,194k is £41k adverse to budget. Void losses are £31k higher than budget, with re-letting of empty properties on hold for the majority of properties. Rental incomes includes the impact of delays in new build completions at Auchinlea, Bellrock and Linkwood, with work suspended following the instruction by Scottish Government to close all construction sites on 23 March.
- No grant income has been recognised in first two months, 14 units were budgeted to complete at Auchinlea , 9 units at Kennishead and 20 units at Linkwood by end of May.
- Total employee costs are £940k favourable to budget mainly driven by the claim received for staff under the Coronavirus job retention scheme. Employee recharges from Solutions are £237k favourable to budget.
- Total running costs are £238k favourable to budget with the variance largely linked to the change in the operation of the business during lockdown which has resulted in lower than expected costs in a number of areas against budget. Group services running costs are £42k higher linked to unbudgeted costs for PPE.
- Revenue repairs and maintenance expenditure is £835k favourable to budget. The service is being delivered on a "life and limb" only basis. Reductions are seen across all areas of repairs expenditure. The spend for the month includes provision for an additional overhead payment of £942k to City Building for GHA's share of the fixed costs of the repairs service after taking account of CBG's claim for furloughed staff under the job retention scheme. A further provision for CBG overhead has been made against the capital investment budget.
- The net capital position of £2,769k is £6,488k below budget. No grant income has been claimed to date.
- Core capital investment programme spend on existing stock is £115k lower than budget driven by the postponement of new works during the lockdown. Spend includes provision for a payment of £660k to CBG for GHA's share of fixed costs which have not been able to be recovered against billed works. Costs for boiler and cladding repairs are included in the costs for the month.
- New build spend is £8,597k lower than budget following the closure all construction sites on 23 March. Spend relates to professional fees and capitalised staff costs only. Other capital expenditure of £628k, is £250k adverse to budget, mainly caused by additional IT spend to support staff to work at home during the COVID-19 lockdown.

Classified as Internal

2c) Cube – Year to date

	Period To 31 May 2020			Full Year
	Actual £k	Budget £k	Variance £k	Budget £k
INCOME				
Rental Income	3,221	3,230	(10)	19,383
Void Losses	(52)	(71)	19	(428)
Net Rental Income	**3,168**	**3,159**	**9**	**18,955**
Other Income	**52**	**82**	**(30)**	**636**
Grant Income	**37**	**23**	**14**	**139**
Total Income	**3,258**	**3,265**	**(7)**	**19,730**
EXPENDITURE				
Employee Costs - Direct	562	585	22	3,508
Employee Costs - Group Services	128	148	20	888
ER / VR	0	0	0	0
Direct Running Costs	324	339	15	1,909
Running Costs - Group Services	98	95	(2)	567
Revenue Repairs and Maintenance	489	566	77	3,183
Bad debts	19	91	72	543
Depreciation	1,212	1,212	0	7,349
TOTAL EXPENDITURE	**2,832**	**3,035**	**203**	**17,946**
OPERATING SURPLUS / (DEFICIT)	**425**	**230**	**196**	**1,784**
Interest Payable	(846)	(854)	8	(5,147)
STATUTORY SURPLUS / (DEFICIT)	**(420)**	**(624)**	**204**	**(3,363)**

	Period To 31 May 2020			Full Year
	Actual £k	Budget £k	Variance £k	Budget £k
INVESTMENT				
Total Capital Investment Income	**37**	**193**	**(155)**	**9,827**
Investment Works	101	706	605	4,235
New Build	435	577	142	11,082
Other Capital Expenditure	31	31	0	187
TOTAL CAPITAL EXPENDITURE	**567**	**1,314**	**746**	**15,505**
NET CAPITAL EXPENDITURE	**530**	**1,121**	**591**	**5,678**

Key highlights year to date:

- Both operating surplus of £425k and statutory deficit of £420k are favourable to budget for the 2 months to end May 2020. The main driver being the lower spend on repairs and bad debt costs.
- Rental income is £10k unfavourable to budget, this is due to the delay to 24 new build properties at Westcliff due to the closure of construction sites in March 2020.
- Void losses are running at 1.6% versus the budget rate of 2.2% generating a favourable variance of £19k. Last year for full year void losses were running at 0.97%.
- Employee costs are £22k favourable to budget in the year to date owing to the claim made under the Job retention scheme. Employees recharged from Group Services for Cube's share of Wheatley Solutions staff is also showing favourable to budget for similar reasons.
- Direct Running Costs are favourable to budget by £15k, due to small savings across a number of office and staff related items.
- Revenue repairs and maintenance expenditure is £77k favourable to budget, due to an lower level of responsive repairs being carried out as a result of lockdown.This line includes a share of the additional CBG fixed overhead.
- Bad debts are £72k favourable to budget . An additional provision was made in period 12 of 2019/20 for tenants on Universal Credit.
- Net capital expenditure of £530k is £591k lower than budget. Capital investment income reported of £37k is for Medical Adaptations only. No grant claims have been made on new build developments.
- Investment works expenditure of £101k mainly relates to £37k spend for adaptations, £28k of capitalised repairs and staff, £27k of Void repairs and £7k Boiler installation. There was no other Core Programme work completed in the period due to lockdown and a revised programme for Core Programme work is being updated.

Classified as Internal

2d) West Lothian Housing Partnership – Year to date

WEST LOTHIAN Housing Partnership

	Year to 31 May 2020			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INCOME				
Rental Income	452	601	(149)	3,664
Void Losses	0	(19)	19	(112)
Net Rental Income	**452**	**582**	**(130)**	**3,552**
Other Income	1	0	1	22
HAG Recognised in the Year	0	0	0	11,263
TOTAL INCOME	**453**	**582**	**(128)**	**14,836**
EXPENDITURE				
Employee Costs - Direct	60	91	31	546
Employee Costs - Group Services	14	14	0	72
Direct Running Costs	53	73	21	367
Running Costs - Group Services	10	10	0	46
Revenue Repairs and Maintenance	28	92	64	582
Bad Debts	6	8	2	49
Depreciation	229	284	55	1,702
TOTAL EXPENDITURE	**399**	**572**	**173**	**3,364**
NET OPERATING SURPLUS / (DEFICIT)	**54**	**10**	**44**	**11,472**
Net Operating Margin	*12%*	*2%*	*10%*	*77%*
Interest receivable	0	0	(0)	2
Interest payable	(166)	(196)	30	(919)
STATUTORY SURPLUS / (DEFICIT)	**(112)**	**(185)**	**74**	**10,554**

	Year to 31 May 2020			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
INVESTMENT				
Total Capital Investment Income	**-**	**1,934**	**(1,934)**	**8,659**
Total Expenditure on Core Programme	13	107	94	645
New Build & Other Investment	87	2,685	2,597	18,138
Other Capital Expenditure	0	0	0	27
TOTAL CAPITAL EXPENDITURE	**100**	**2,792**	**2,692**	**18,809**
NET CAPITAL EXPENDITURE	**100**	**858**	**757**	**10,150**

Key highlights year to date:

- Net operating surplus of £54k is £44k favourable to budget. Statutory deficit for the period to 31 May is £112k, £74k favourable to budget. .
- The original budget assumed that the units transferring from Barony HA would do so on 1 April 2020. This transfer took place on 17 May 2020. A number of the variances in the year to date relate to expected income and costs from the Barony HA units transfer.
- Total income of £453k is £128k adverse to budget. Gross rental income is £149k adverse to budget, the majority of this variance (£147k) relates to the Barony units. Void losses are £19k favourable to budget.
- Total expenditure of £399k is £173k favourable to budget. Of this variance £113k relates to the Barony units. The largest variance relates to revenue repairs and maintenance expenditure which is £64k favourable to budget. Of this, £32k relates to the Barony properties. The remaining variance is due to the repairs service operating a 'life and limb' service which has resulted in lower than expected costs.
- Group services charges for staff and running costs of £24k represent West Lothian's share of Wheatley Solutions' staff and service costs.
- Gross interest payable of £166k represents interest due on the £18.75m of loans due to Wheatley Funding Ltd 1.
- Core investment expenditure of £13k is £94k lower than budget. Of this variance £42k relates to the Barony units and the remaining variance is linked to the postponement of a significant number of planned investment as a result of the Coronavirus epidemic.
- New Build expenditure of £87k is reported at the end of period with the variance of £2,597k driven by the Scottish Government instruction to close all construction sites from 23 March 2020.

Classified as Internal

2e) Loretto Housing – Year to date

	Period To 31 May 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
INCOME				
Rental Income	1,369	1,371	(2)	8,224
Void Losses	(29)	(44)	15	(266)
Net Rental Income	**1,340**	**1,326**	**13**	**7,959**
Other Income	**48**	**47**	**0**	**283**
Grant Income	**15**	**12**	**3**	**72**
Total Income	**1,403**	**1,386**	**17**	**8,314**
EXPENDITURE				
Employee Costs - Direct	214	223	9	1,338
Employee Costs - Group Services	43	45	2	269
ER / VR	0	0	0	0
Direct Running Costs	258	284	26	1,531
Running Costs - Group Services	30	29	(1)	172
Revenue Repairs and Maintenance	174	233	59	1,388
Bad debts	14	37	23	221
Depreciation	611	611	0	3,701
TOTAL EXPENDITURE	**1,344**	**1,462**	**118**	**8,620**
OPERATING SURPLUS / (DEFICIT)	**58**	**(77)**	**135**	**(306)**
Interest Payable	(329)	(330)	0	(1,978)
STATUTORY SURPLUS / (DEFICIT)	**(270)**	**(407)**	**136**	**(2,284)**
EBITDA	**670**	**535**	**135**	**3,394**
EBITDA (excluding grants)	**655**	**523**	**132**	**3,322**

	Period To 31 May 2020 Actual £k	Budget £k	Variance £k	Full Year Budget £k
INVESTMENT				
Total Capital Investment Income	**3,621**	**974**	**2,647**	**8,889**
Investment Works	52	254	202	1,525
New Build	203	1,013	810	11,036
Other Capital Expenditure	12	30	18	179
TOTAL CAPITAL EXPENDITURE	**267**	**1,297**	**1,030**	**12,741**
NET CAPITAL EXPENDITURE	**(3,354)**	**323**	**3,677**	**3,851**

Key highlights year to date:

- Operating surplus of £58k and statutory deficit of £270k are both favourable to budget, the main driver being the changes to the operating model during the COVID pandemic which has resulted in savings in expenditure in direct running costs and in repairs and maintenance through the operation of a "life and limb" service only during the lockdown.
- Void losses in the year to date are 2.1% against a budget of 3.3%. Prior year void losses were at 1.4% for the full year.
- Grant income relates to £15k for medical adaptations only. There is no other grant income budgeted for the year with no new build completions until 2021/22
- Employee costs report a favourable variance of £9k, owing mainly to vacant positions and the claim made under the Job retention scheme. Employees recharged from Group Services for Cube's share of Wheatley Solutions staff is also showing a favourable variance to budget.
- Direct running costs are £26k favourable to budget, on various lines due to phasing of the budget, and lower levels of spend on office and staff related expenditure since the lockdown.
- Group Services Running Costs of £30k represents Loretto's share of Wheatley Solutions running costs and include a share of the costs of unbudgeted PPE for staff.
- Revenue repairs and maintenance expenditure is £59k favourable to budget due to lower levels of spend in reactive repairs and cyclical maintenance. Provision has been made for an additional fixed overhead from CBG.
- The net capital position is £3,677k favourable to budget, due to the receipt of £3.6mfrom Allia for the Dargavel site.
- Investment works expenditure of £52k relates to voids, capitalised repairs and staff and £15k spend on medical adaptations.
- New build expenditure of £203k mainly relates to Eriboll for a settlement agreement. The budget for April and May provides for spend at the Dargavel and Hallrule sites which are still closed due to the lockdown.

Classified as Internal

2f) Dunedin Canmore – Year to date

	Year to 31 May 2020 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	4,873	5,043	(170)	30,153
Void Losses	(71)	(61)	(10)	(363)
Net Rental Income	**4,802**	**4,982**	**(180)**	**29,791**
HAG Recognised in the Year	0	0	0	0
Other Income	413	448	(35)	2,853
TOTAL INCOME	**5,214**	**5,430**	**(215)**	**32,643**
EXPENDITURE				
Employee Costs - Direct	738	778	40	4,667
ER/VR	-	-	-	-
Employee Costs - Group Services	249	276	27	1,679
Direct Running Costs	557	597	40	3,398
Running Costs - Group Services	176	176	0	1,071
Revenue Repairs and Maintenance	555	675	120	4,279
Bad Debts	24	48	25	290
Depreciation	1,263	1,300	37	7,801
TOTAL EXPENDITURE	**3,561**	**3,851**	**290**	**23,186**
NET OPERATING SURPLUS / (DEFICIT)	**1,653**	**1,579**	**74**	**9,457**
Net Operating Margin	*32%*	*29%*	*3%*	*29%*
Interest receivable	1	2	-	13
Interest payable	(1,336)	(1,340)	4	(7,891)
STATUTORY SURPLUS / (DEFICIT)	**319**	**241**	**77**	**1,579**

	Year to 31 May 2020 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INVESTMENT				
Total Capital Investment Income	**-**	**1,452**	**(1,452)**	**15,135**
Total Expenditure on Core Programme	402	906	504	5,437
New Build & Other Investment	83	1,765	1,682	23,925
Other Capital Expenditure	9	8	(1)	350
TOTAL CAPITAL EXPENDITURE	**493**	**2,679**	**2,185**	**29,712**
NET CAPITAL EXPENDITURE	**493**	**1,227**	**733**	**14,577**

Key highlights year to date:

- Net operating surplus of £1,653k is £74k favourable to budget. Statutory surplus for the period to 31 May is £319k, £77k favourable to budget.
- The original budget presumed that the units transferring from Barony HA would do so on 1 April 2020. As this transfer has not yet occurred, a number of the variances in the year to date relate to expected income and costs from the Barony HA units that have not yet transferred.
- Gross rental income is reporting an adverse variance of £170k, the majority of this variance (£160k) relates to the units expected to be transferred from Barony. The remaining variance reflects the delay in new build completions in P12 of 2019/20 due to the Scottish Government instruction to close construction sites at 23 March.
- Other Income is £35k adverse to budget, primarily as a result of MMR lease income due to the delay in new build MMR completions in P12 of 2019/20.
- Total expenditure is £506k favourable to budget. Of this variance £113k relates to Barony expenditure which has not yet been transferred. Staff costs include a claim of £61k from the Job retention scheme.
- The largest favourable variance relates to repairs and maintenance costs which are £120k favourable to budget. Of this variance £21k relates to Barony and the remaining variance is a result of the current 'life and limb' operating model which has resulted in lower than expected costs. The volume of reactive repair jobs is 52% lower than the same period last year and the reported cost includes the unrecovered element of DCPS staff after the claim under the job retention scheme.
- Investment expenditure on existing properties is £504k lower than budget. Of this variance £56k relates to Barony and the remaining variance reflects the postponement of a number of work types in the investment programme.
- New build spend of £83k is £1,682k behind budget as a result of site closures.

2g) Barony – Year to date

BARONY - HOUSING	Year to 31st May 2020 Actual £ks	Budget £ks	Variance £ks
INCOME			
Rental Income	306	309	(3)
Void Losses	(15)	(13)	(2)
NET RENTAL INCOME	**291**	**296**	**(5)**
Other Income	7	0	7
TOTAL INCOME	**298**	**296**	**2**
EXPENDITURE			
Employee Costs - Direct	18	17	(1)
Employee Costs - Group Services	17	17	0
Direct Running Costs	26	33	7
Running Costs - Group Services	27	27	0
Revenue Repairs and Maintenance	34	53	19
Bad Debts	5	1	(4)
Depreciation	78	78	0
TOTAL EXPENDITURE	**205**	**226**	**21**
NET OPERATING SURPLUS / (DEFICIT)	**93**	**70**	**23**

INVESTMENT			
Total Capital Investment Income	**0**	**0**	**0**
Total Expenditure on Core Programme	21	98	77
New Build	0	0	0
Other Capital Expenditure	0	0	0
TOTAL CAPITAL EXPENDITURE	**21**	**98**	**77**
NET CAPITAL EXPENDITURE	**(21)**	**(98)**	**(77)**

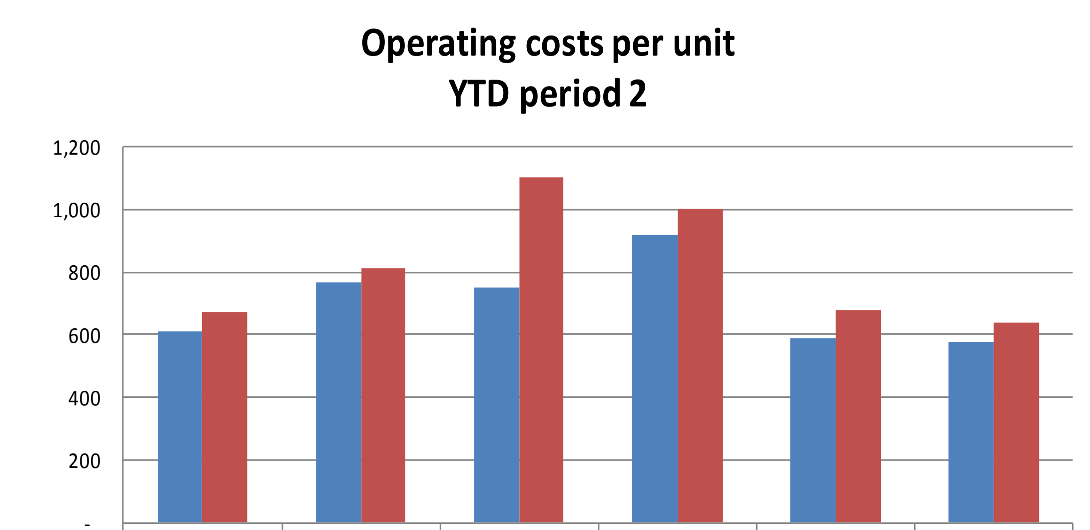
Housing Income and Direct Expenditure – key points

- The budget for Barony housing activities is included with the West Lothian Housing Partnership and Dunedin Canmore results. It is shown here for comparative purposes only pending the completion of the transfer of engagement to Dunedin Canmore.
- Net rental income of £291k is £5k unfavourable to budget. Rental income (including service charges) is £3k adverse to budget, with void losses £2k unfavourable to budget in the year to date, linked to supported properties.
- Employee costs are £1k unfavourable to budget. Direct running costs are £7k favourable to budget for the month with lower staff and office related costs incurred.
- Repairs and maintenance expenditure is £34k, £19k 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 £18k, with cyclical repairs £1k favourable. The repairs service in May continued to be a life and limb service due to the COVID19 pandemic.

Capital Expenditure

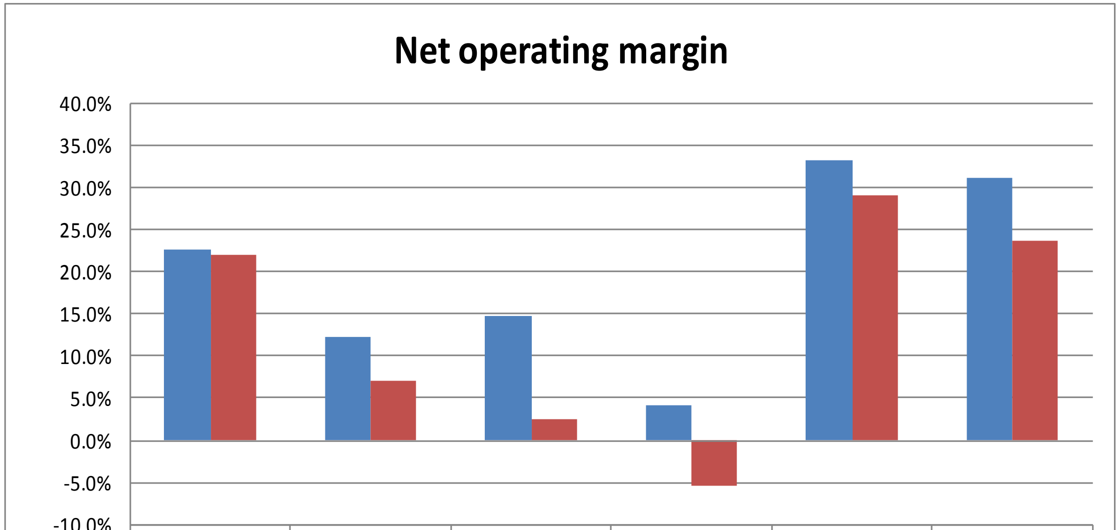
- Core programme expenditure of £21k, is £77k favourable to budget. Due to the current working situation and the COVID 19 pandemic, it is anticipated that Core Programme work will be impacted for the coming months, with fewer scheduled works taking place.

3) Summary of RSL operating costs and margin v budget



	GHA	Cube	WLHP	LHA	DCH	Barony
Actual	610	765	748	920	586	577
Budget	670	812	1,101	1,001	677	637

- Operating costs per unit:
  - At period 2 all RSLs are reporting favourable operating costs per unit for the year to date. The majority of 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.



	GHA	Cube	WLHP	LHA	DCH	Barony
Actual	22.5%	12.2%	14.8%	4.2%	33.1%	31.2%
Budget	22.0%	7.0%	2.4%	-5.5%	29.0%	23.6%

- Net operating margin:
  - Net operating margin is favourable to budget in all subsidiaries for the year to date.

4) WFL1 Covenants

[redacted]

Wheatley Group Financial Report
To 31 May 2020 (Period 2)

Dumfries & Galloway Housing Partnership (DGHP)

5a) DGHP - Year to date

	Year to May 2020 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	7,446	7,545	(99)	44,799
Void Losses	(181)	(165)	(16)	(890)
Net Rental Income	**7,265**	**7,380**	**(115)**	**43,909**
Grant Income	-	341	(341)	1,367
Other Income	428	382	46	1,677
TOTAL INCOME	**7,693**	**8,103**	**(410)**	**46,953**
EXPENDITURE				
Employee Costs - Direct	1,021	1,123	102	6,696
Employee Costs - Group Services	-	-	-	-
Transformation budget	-	**14**	14	436
Direct Running Costs	595	705	110	4,900
Running Costs - Group Services	-	-	-	-
Revenue Repairs and Maintenance	1,240	1,976	735	12,239
Bad debts	119	141	22	921
Depreciation	2,251	2,251	-	9,005
TOTAL EXPENDITURE	**5,226**	**6,210**	**983**	**34,197**
NET OPERATING SURPLUS	**2,467**	**1,893**	**573**	**12,756**
Net operating margin	*32%*	*23%*	*9%*	*27%*
Interest receivable	35	40	(5)	241
Net Interest payable & similar charges	(995)	(961)	(34)	(6,451)
STATUTORY (DEFICIT)/SURPLUS	**1,507**	**972**	**534**	**6,546**

	Year to May 2020 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £k
INVESTMENT				
Total Capital Investment Income	-	-	-	(3,449)
Expenditure on core programme	14	2,344	2,330	22,012
New Build	0	1,612	1,612	13,056
Other Capital Expenditure	0	0	0	1,545
TOTAL CAPITAL EXPENDITURE	**14**	**3,956**	**3,942**	**36,613**
NET CAPITAL EXPENDITURE	**14**	**3,956**	**3,942**	**33,164**

DGHP
Dumfries & Galloway Housing Partnership
Working with our Tenants

Key highlights year to date:

- Net operating surplus of £2,467k is £573k favourable to budget, driven by lower costs of repairs whilst operating the reduced "life and limb" service. The statutory surplus of £1,507k is £534k favourable to budget.
- Total income of £7,693k is £410k lower than budget. The budget was prepared under the existing DGHP accounting policy of amortisation of grant. The Group accounting policy is to recognise grant on completion of new build properties and accordingly, no grant has been recognised.
- Net rental income is £115k lower than budget with void loss being £16k higher for the period as vacant properties are not being actively let during the lockdown period.
- Total expenditure is £983k favourable to budget. Within staff costs, a claim of £87k made under the coronavirus job retention scheme is driving the favourable variance.
- Direct running costs savings are due to timing at this early stage of the year
- Repairs costs are reporting a favourable variance of £735k against budget. The new in-house repairs service was launched on 1 April 2020 and is operating a "life and limb" service at the present time. The full staff complement has not yet been reached and a claim of £96k has been made under the job retention scheme for furloughed repairs staff, both items helping to reduce repairs costs. Charges for grounds maintenance and gas contracts are also included in this line and are provided under third party fixed contract arrangements.
- The majority of work in the investment programme as been postponed with only £14k spend being on door entry systems, heating and low-rise fabric roofing.
- New Build spend is £nil following the Scottish Government instruction to close all construction sites on 23 March. Other capital expenditure makes provision for IT and office capital investment later in the financial year.

5b) DGHP Covenants

[redacted]

Wheatley Group Financial Report
To 31 May 2020 (Period 2)

Care and Commercial

redacted

redacted

•Classified as Internal

redacted

•Classified as Internal

7) Wheatley Solutions – Year to date

	Year to May 20			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £ks
EXPENDITURE				
Employee costs				
Executive Team	243	255	12	1,527
Employee Relations and WFP	329	313	(16)	1,870
Marketing and Communications	115	117	2	700
Finance	373	358	(15)	2,007
Assurance	227	223	(4)	1,303
Company Secretary	116	136	19	811
Business Growth	179	188	9	1,125
Information Technology	212	203	(10)	1,213
Wheatley Hub	673	676	3	3,914
Academy	115	125	10	750
Property	146	147	1	879
Wheatley 360	56	61	5	366
Furlough income	(283)	0	283	0
Total employee costs	2,474	2,776	302	16,111
Running costs				
Executive Team	5	57	52	389
Employee Relations and WFP	113	118	5	720
Marketing and Communications	7	42	34	461
Finance	44	70	26	441
Assurance	22	41	19	505
Company Secretary	26	46	20	400
Business Growth	28	67	40	404
Information Technology	601	691	90	4,148
Wheatley Hub	2	7	5	43
Academy	42	109	67	652
Property	624	275	(349)	1,649
Wheatley 360	3	3	0	20
Total running costs	1,544	1,553	9	9,986
Regulated insurance activities	0	531	531	3,189
Head office costs	217	217	0	1,305
TOTAL EXPENDITURE	**4,235**	**5,077**	**842**	**30,590**
Income from recharges by subsidiary:				
GHA	3,080	3,275	(195)	19,733
Lowther	113	120	(7)	724
YP	261	190	71	1,142
Loretto Housing	69	73	(4)	441
Wheatley Care	39	42	(2)	250
Cube	227	241	(14)	1,455
WLHP	24	24	0	146
Dunedin Canmore	425	452	(27)	2,722
Wheatley Foundation	47	50	(3)	299
Total income from recharges	**4,238**	**4,467**	(229)	**26,914**
Regulated insurance activities	**0**	**613**	(613)	**3,679**
Total income	**4,238**	**5,080**	(842)	**30,593**
Profit before tax	**3**	**3**	**0**	**3**
Tax	**(1)**	**(1)**	**0**	**(1)**
Profit before tax	**2**	**2**	**0**	**2**

Comments:

The table presents the financial performance of Wheatley Solutions for the first two months of 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 £4,235k. This is £842k lower than budget for the period with lower employee costs and no insurance activity for the period to date. Running costs are in line with budget.

- Employee costs of £2,474k are £302k favourable to budget, as a result of the claim fro staff under the job retention scheme. In total £451k has been claimed, of which £168k relates to capitalised staff with £283k for staff recharged as revenue expenditure to Wheatley subsidiaries.
  - Variance reported across individual departments relate to changes made to budgeted structure as at 1 April 2020 for maternity leave cover for staff in Finance, Assurance, and Employee Relations.
- Running costs of £1,544k is in line with budget for the first two months. The key variances within this are:
  - Property expenditure of £624k is £349k higher than budget. This overspend relates to £421k of PPE costs to support the Group's response to the Covid19 pandemic recorded in facilities management including costs in relation to Wheatley Care, where discussions on recovery of costs are in progress with the relevant health and social care partnerships..
  - A number of the departments report lower than budgeted expenditure largely due to changes to current business model in place with large percentage of staff working from home.
  - IT reports spend that is £90k lower than budget. This is expected to be a timing variance only as new support and maintenance contracts are added during the next few months.
- Regulated insurance activities continue to be provided by Your Place. FCA approval has been granted and the intention is for this to transfer across to Wheatley Solutions as the approved agent from quarter 3 onwards.
- Due to lower than budgeted costs, the income received from subsidiaries is less than budgeted. The only exception to this is Your Place, which has been adjusted to reflect the retention of the regulated insurance activity for the period to date.

Classified as Internal

redacted

•Classified as Internal

redacted

10) Wheatley Group – Consolidated Balance Sheet

Balance Sheet	Current Month As at 31 May 2020 £ks	Previous yr end As at 31 March 2020 £ks
Fixed Assets		
Social Housing Properties	2,255,586	2,169,792
Properties under construction	125,702	176,956
Other tangible fixed assets	59,826	63,547
Investment properties	207,286	204,230
Investments -other	87	87
Fixed Assets	**2,648,487**	**2,614,612**
Debtors Due More Than One Year		
Development Agreement	20,478	20,190
Inter Company Loan	0	0
Pension Asset	13,237	15,774
Current Assets		
Trade debtors	(593)	0
Rent & Service charge arrears	15,950	13,665
less: Provision for rent arrears	(7,754)	(7,755)
Prepayments and accrued income	6,273	11,155
Intercompany debtors	0	(0)
Other debtors	16,065	18,732
	29,941	**35,797**
Bank & Cash	142,782	112,978
Current Assets	**172,724**	**148,775**
Current Liabilities		
Trade Liabilities	(7,486)	(14,786)
Accruals	(27,932)	(36,063)
Deferred income	(72,689)	(67,750)
Rents & service charges in advance	(10,636)	(10,415)
Intercompany creditors	0	(0)
Other creditors	(6,035)	(4,246)
	(124,778)	**(133,260)**
Net Current Assets	**68,424**	**35,704**
Long Term Liabilities		
Contingent efficiencies grant	(34,915)	(35,531)
Bank finance	(1,199,532)	(1,169,439)
Bond finance	(300,000)	(300,000)
Development Agreement	(20,478)	(20,190)
Provisions	(4,187)	(3,783)
Deferred income	(5,601)	(5,361)
Intercompany creditors	0	0
Other creditors	0	0
Pension liability	(11,129)	(11,770)
Long Term Liabilities	**(1,575,842)**	**(1,546,074)**
Net Assets	**1,154,305**	**1,120,016**
Funding Employed		
Capital & Reserves		
Share Capital	37	0
Retained Income b/fwd	878,345	628,305
Income & Expenditure	1,268	256,861
Movement in Pensions Provision	0	0
Designated Reserves/gain on business	0	0
Revaluation Reserves	274,655	234,850
Funding Employed	**1,154,305**	**1,120,016**

Key highlights:

- Group net assets stand at £1,154.3m at 31 May 2020.
- The Balance Sheet as at 31 March 2020 is subject to final audit and the year end statutory adjustments for property and pension valuations as well as 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 £5.9m lower than the year end position mainly driven by the lower levels of prepayments and higher balances for rent arrears, which fluctuate throughout the year depending on the timing of invoices.
- Current liabilities are £8.5m lower than the year end position. The variance has been driven mainly by lower levels of accruals and trade creditors of £15.4m in total, offset by higher levels of other creditors of £1.8m and higher levels of deferred income of £4.9m. The movement on deferred income relates to the grant received in the current year relating to Dargavel (£3.6m).
- Long term liabilities are £29.6m higher with additional borrowings in WFL1 of £72m, offset with capital repayments to HSBC of £40m.
- Income and expenditure of £1,268k relates to the group profit for the year to date.

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: Business Plan Financial Projections Reforecast

Date of Meeting: 24 June 2020

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1. Purpose

1.1 To provide an update on the expected impact of Covid 19 on the Group's financial projections and 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).

4. Background

4.1 In February 2020 the Board approved the 2020/21 Business Plan Financial Projections and related key financial ratios for the Group and its subsidiaries. These financial projections set out how we would deliver the outcomes in our draft 2020-25 strategy while keeping rents affordable and meeting the requirements of our funding arrangements. The first year of these financial projections formed the basis of the budget for 2020/21.

4.2 As a result of Covid 19 there has been significant disruption to our business and this is expected to continue for some time. Lockdown restrictions have meant that from March all construction of new homes ceased and investment in existing properties was put on hold. Our repairs service has been reduced to life and limb only, a number of other services have been either reduced or paused. We have increased some services delivered by the Foundation such as food parcels and emergency funding to our most vulnerable tenants until restrictions are eased. Changes in our working practices, with increased home working and provision of personal protective equipment for frontline staff, has resulted in increased costs to the organisation. In addition to this, customers have been impacted by redundancy, furloughing and delays waiting for Universal Credit, all of which create risks to our rental income.

4.3 These factors will have a significant impact on the financial projections for the group and our funding requirements. We have therefore updated the financial projections to reflect our experience to date and expectations for the future.

5. Discussion

5.1 The Group financial projections have been updated to reflect the following changes:

- ***Economic***
  Reductions in inflation were observed in April 2020 with CPI falling from 1.5% to 0.8% and RPI reducing from 2.6% to 1.5%. Outlook scenarios from the Bank of England show further reductions to zero or negative inflation over the next 12 months before rates return to their target of 2%. However, as a result of production delays, increased demand for certain products and the increased costs to suppliers of implementing safe working practices we may see above inflationary increases in areas such as construction.

  We have therefore assumed a reduction in cost inflation from 3% to 1.5% in 2021/22. In the following three years cost inflation is assumed to return to 3% before reducing to a long term rate of 2.5%. This reflects an element of prudence relative to the market forecasts and the Bank of England's long term CPI target of 2%.

- ***Income Collection & Performance***
  With a rise in unemployment and an increase in the number of tenants moving onto Universal Credit, ensuring rental income remains affordable is critical. In recognition of this we have reduced the assumed rent increases on social housing stock from 3.5% each year to 1.9% in April 2021 and 2.4% in April 2022 for members of the RSL Borrowing Group. For DGHP the assumption is 2% for the next two years in line with the tenant ballot promise. For all RSLs the increase is thereafter assumed to be 2.9% a year for the remainder of the business plan. [sentence redacted].

  The increase in tenants moving to Universal Credit also creates additional challenges in terms of rent collection. Our financial projections have therefore been updated to reflect the increase in arrears observed over the past three months and to make a very conservative provision for the 2020/21 arrears increase of £11m (3.8% of gross rents) given the uncertainty we face. While we hope to outperform this, it makes our provision broadly in line with that assumed by S&P in their rating report. Additional provision of £1.6m has also been made for an increase in bad debts and voids.

- ***Employee & Running Costs***
  Our projections have been updated to include furloughing income and at this stage reflect income up to the end of May of £2m. We will keep our furlough list under review, including potential use of the new part-time flexibilities, to ensure we receive income from the UK government where staff are not able to carry out their normal duties to Covid-related restrictions. The final amount received is likely to therefore be higher than the conservative assumption of £2m made at this stage.

Classified as Internal

Our Approved Business Plan assumed significant savings in employee costs over the next five years however, in light of the need to ensure rents remain affordable, we have increased this savings target by £1m in the revised projections and provided for an increase in early retirement/voluntary redundancy payments to deliver this. Assumed pay increases have also been reduced from 2.2% to 1.5% for the next three years and 2% thereafter.

In addition to savings in employee costs, our projections include running cost savings from procurement, rationalisation of offices accommodation and related cost efficiencies. We are carrying out a detailed review of our office estate and operating models at present and a further update of the business plan to reflect these is anticipated later in the year in advance of the rent consultation process.

- ***Care Activities***
  Assumed care contract income from Health & Social Care Partnerships has been increased by 3.3% where this has been confirmed by the Local Authority. Currently around 74% of services have had this increase confirmed. This has enabled an equivalent increase in salaries to be reflected. While additional costs in respect of personal protective equipment and staff cover have been incurred, we anticipate being able to reclaim the majority of these costs from Scottish Government with the remainder able to be accommodated within existing budgets. No additional costs have therefore been included in the revised projections for Wheatley Care.

  This results in the following projected income and expenditure.

	2020-21 £000s	2021-22 £000s	2022-23 £000s	2023-24 £000s	2024-25 £000s
Income	**21,763**	**22,189**	**22,599**	**23,016**	**23,417**
Direct Expenditure					
Staff	(16,771)	(17,116)	(17,467)	(17,821)	(18,111)
Overheads	(3,252)	(3,306)	(3,360)	(3,415)	(3,471)
Total	**(20,023)**	**(20,422)**	**(20,827)**	**(21,236)**	**(21,583)**
Management Fee	(1,332)	(1,358)	(1,385)	(1,413)	(1,438)
Surplus	**408**	**409**	**387**	**368**	**396**

- ***Repairs & Investment***
  In mid March, we moved to a life and limb only repairs service and all investment work was suspended. This has resulted in a significant reduction in both repairs and investment spend over the last few months. As restrictions begin to be lifted we anticipate being able to expand the works we can undertake. For repairs this will likely mean an initial move to expand the life and limb service to "life and limb plus", progressing to voids and compliance work with business as usual unlikely to return before the end of the calendar year. For investment we anticipate recommencing external investment works first with projects already in progress and compliance/safety works given priority.

Classified as Internal

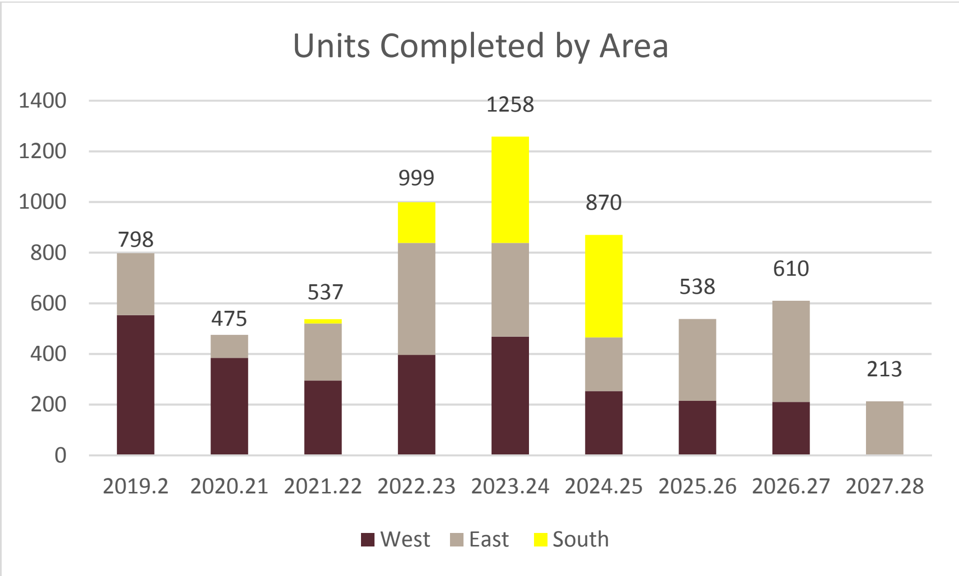
Our projections therefore reflect a substantial reduction in investment and repairs spend in the current year with some increases in spend in the following two years as we seek to meet regulatory standards and commitments made to tenants, particularly in DGHP.

This reduction in investment and repairs works will have implications for both City Building and our in-house repairs teams at DGHP and Dunedin Canmore where an element of costs will be fixed and therefore the full benefit of the reduction in work volume will not be fully realised as a saving.

- ***Development programme***
  As a result of lockdown restrictions, 23 sites were shut down on the 23 March. This resulted in 133 units due to complete by the end of March 2020 being delayed and reduced the total units completed in 2019/20 to 798. While restrictions on development works are beginning to be eased and we expect construction to resume soon, we have updated our financial projections to reflect the impact of these site closures and the potential impact on development periods of the new working methods to be put in place to enable social distancing.

  Spend, net of grant, on new build in the current year has been assumed to reduce by £28m in total across all RSLs and expected completions over the first two years have been reduced. This results in the revised development programme shown in the graph below:

Development Programme



We plan to review our Group Strategy and re-set targets for a 2021-26 period. There is therefore scope to increase delivery in the later years of this period to increase output over the numbers shown above, while remaining within our debt per unit covenant.

In the short term, it is likely that there will be further movements in the development programme once plans for restarting construction and the implications of new working methods are fully understood. This will be reflected in the next update of the business plan.

Classified as Internal

- **Funding**
  Opening debt and cash balances have been updated for the actual position as at 31st March 2020 and changes to syndicate facilities in the RSL borrower group have also been reflected. The additional £72m drawn from EIB in April 2020 has also been included within the projections.

  Variable interest rates have been reduced from 3.5% to 1.5% in 2020/21 and from 4% to 2.5% in 2021/22 to recognise the current low rates and short/medium term forecasts.

6. Key Financials

6.1 The RSL borrower group, DGHP and Lowther Homes have separate funding arrangements so the impact of the changes to the financial projections have been assessed individually

RSL Borrower Group

6.2 A continued focus within the RSL Borrowing Group remains cash generation capacity. When considering our position, we look to the amount of cash that these RSLs generate from their operations, strip out non-cash accounting adjustments such as depreciation, and deduct the costs invested through our repairs and on-going capital maintenance programme. This calculation measures earnings after taking account of the investment expenditure needed to maintain the revenue generating assets and is defined as EBITDA-MRI[1]. This figure reports the earnings from the business available to pay interest costs and is the principal measure used by lenders to the UK social housing sector to assess ongoing financial sustainability.

6.3 The table below presents the EBITDA-MRI profile for the RSL Borrowing Group mapped against our interest costs.

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Turnover (excl Grant)	256,394	264,217	273,811	287,135	298,329
Operating Costs (excl Depreciation)	(139,703)	(140,643)	(136,591)	(140,444)	(143,597)
EBITDA	**116,691**	**123,574**	**137,220**	**146,691**	**154,731**
Capital Stock Improvements	(43,020)	(55,639)	(55,104)	(55,981)	(58,414)
EBITDA MRI	**73,671**	**67,935**	**82,115**	**90,710**	**96,317**
Interest (net)	59,836	60,607	64,174	68,039	70,156
Cover	**13,835**	**7,328**	**17,941**	**22,671**	**26,161**
%age	**123%**	**112%**	**128%**	**133%**	**137%**
Feb 2020 (%age)	*96%*	*109%*	*128%*	*135%*	*141%*

6.4 We anticipated reaching break-even on an underlying EBITDA MRI measured against interest costs by 2021/22 in our approved Business Plan. However, as a result of the significant reduction in investment costs in 2020/21 combined with reduced funding costs we now anticipate breaking even in the current financial year.

[1] EBITDA MRI stands for Earnings Before Interest, Tax, Depreciation and Amortisation, Major Repairs Included

Classified as Internal

6.5 The table below shows the projected key financial covenants for the RSL borrower group based on the reforecast financial projections.

		2021	2022	2023	2024	2025	2026
Interest Cover	RSL GROUP	163.5%	143.0%	139.8%	143.0%	146.9%	153.7%
	Target(> than)	**110.0%**	**100.0%**	**100.0%**	**110.0%**	**110.0%**	**110.0%**
	Headroom	*£32.0m*	*£26.1m*	*£25.5m*	*£22.5m*	*£25.9m*	*£31.2m*
Debt per Unit	RSL GROUP	£23,580	£24,173	£25,040	£25,346	£25,671	£25,841
	Target(< than)	**£26,500**	**£27,000**	**£27,000**	**£27,000**	**£27,000**	**£27,000**
	Headroom	*£152.9m*	*£149.6m*	*£105.3m*	*£90.2m*	*£73.1m*	*£64.4m*

6.6 This demonstrates that all covenants can be met with minimum headroom of £22.5m on interest cover in 2023/2024 and £64.4m on debt per unit in 2025/26. This meets our "Golden Rule" of always maintaining 25% headroom on this measure (the lowest point being 33%). Note that the assumed deductions from operating surplus in respect of major/capitalised repairs and investment reflect the revised definitions agreed with our lenders in March 2020.

6.7 Based on the current assumptions for the new build programme, the total debt requirement for the borrower group is projected to be £1,440m and we anticipate our existing facilities being sufficient to cover all funding requirements until 2023/24. Following the drawdown of the £72m from EIB in the current year, no further loan drawdowns are expected to be required during 2020/21 other than through the Bank of England approach the Board agreed at its last meeting. The debt per unit covenant achieves our Golden Rule of always maintaining at least £50m projected headroom.

DGHP

6.8 While it is expected that DGHP will join the RSL borrower group in the future it currently has separate funding arrangements and must be considered on its own. The key change to DGHP's plan is the re-phasing of capital investment on existing stock, in order to achieve the Scottish Housing Quality Standard ("SHQS"), the Energy Efficiency Standard in Social Housing ("EESSH") and deliver on tenant ballot promises. Approximately £13.6m has been deferred from 2020/21 and spread over the following two years.

6.9 The table below shows cash generation capacity for DGHP in EBITDA MRI terms:

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Turnover (excl Grant)	45,308	45,900	46,569	49,141	52,199
Operating Costs (excl Depreciation)	(24,449)	(23,550)	(24,369)	(25,271)	(26,591)
EBITDA	**20,859**	**22,350**	**22,200**	**23,871**	**25,608**
Capital Stock Improvements	(10,277)	(26,311)	(24,769)	(17,420)	(16,836)
EBITDA MRI	**10,582**	**(3,961)**	**(2,569)**	**6,451**	**8,772**
Interest (net)	(6,433)	(6,349)	(6,273)	(7,304)	(9,054)
Cover	**4,150**	**(10,310)**	**(8,843)**	**(853)**	**(282)**
%age	165%	(62%)	(41%)	88%	97%

Classified as Internal

6.10 This shows that while DGHP is expected to generate sufficient cash income from operating activities to cover the cost of capital stock improvements and interest in 2020/21, higher levels of investment in subsequent years mean that it will take another five years before it will generate sufficient cash from operating activities to cover funding costs. Additional borrowing will therefore be required to fund both new build and investment in existing properties in the early years. The potentially adverse impact of this profile on the RSL borrowing group interest cover covenant is the reason why we do not plan for DGHP to join the RSL borrowing group immediately.

6.11 DGHP is currently funded via loans from M&G (£114m), RBS (£35m), THFC (£41.3m) and Allia (£35m) with available facilities of £225.3m. As at 31st March 2020 DGHP had drawn £190.3m and had cash of £65.1m. Given the significant reduction in investment and repairs spend in 2020/21 it is anticipated that income from operating activities and cash will be used to fund investment costs and no further loan drawdowns will be required.

6.12 [redacted]

6.13 [redacted]

6.14 [redacted]

6.15 [redacted]

Lowther Homes

6.16 [redacted]

6.17 [redacted]

7. Key Issues and Conclusions

7.1 The revised projections show that our partner organisations remain financially strong, and able to comply with loan covenants and our financial policies / Golden Rules. Given the unprecedented level of uncertainty, they will be subject to further review and will be reported back to the Board as part of the rent setting exercise for next year.

7.2 In addition to reflecting the short term volatility arising from Covid-19, the projections make a very significant change in respect of rent increases, with the reduction of the long term rate from 3.5% to 2.9%, in line with our draft strategy and as previously discussed with the Board. This has been made possible by the low-cost borrowing we have been able to raise as a Group, particularly from the EIB, together with the revised assumptions on staffing efficiencies.

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). While Covid 19 has required us to reduce service provision in areas such as repairs and investment works we have increased the level of support available to our most vulnerable tenants.

8.2 Our revised Business Plan financial projections recognise the challenges our customers may be facing and include additional savings and efficiencies which will allow us to apply lower rent increases going forward.

9. Impact on Financial Projections

9.1 Outlined above.

10. Legal, regulatory and charitable implications

10.1 The Scottish Housing Regulator has requested a copy of these financial projections following the Board's review. The deadline for submission of the five-year financial projections regulatory return has been extended from June to the end of September. We anticipate a further update to the projections in August which will then allow all RSL Boards to review these prior to this date.

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:

- Note the update to our financial projections, including the reduction in the long term rent increase to 2.9%;

- [redacted]; and

- Note that a further revision to the projections will be brought back to the Board in August

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: Interim governance arrangements update

Date of Meeting: 24 June 2020

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1. Purpose

1.1 To provide the Board with feedback on the review of interim governance arrangements and, where applicable, seek approval for the next phase of our governance arrangements.

2. Authorising context

2.1 Under the Group Authorising Framework, the Group Board is responsible for our overall governance framework. Any changes to the Group's governance arrangements must be agreed by the Group Board.

3. Risk Appetite and assessment

3.1 Our risk appetite in relation to governance 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 The Board previously reviewed the risks associated with exercising good governance under the current Covid 19 related restrictions. To mitigate the risks the Board agreed interim governance arrangements, specifically:

- The introduction of revised interim skills matrices
- Streamlining the Board meetings, including the number of attendees, to make them manageable
- Changes to our succession plans across the Group

3.3 In order to mitigate the risk our interim governance arrangements are not sufficient, a review was undertaken to consider their effectiveness. The details of the review are set out within this report.

4. Background

4.1 The Board agreed our interim governance arrangements at their meeting on 8 April 2020. All governing body members across the Group were advised of these arrangements via a communication from the Group Chair.

4.2 At the Board meeting on 12 May the Board agreed, as part of the framework for the restart up and renewal of activity, an assumption that the existing governance operating model would remain in place from June-September. It was confirmed that we would review the interim arrangements after the first Board cycle and provide feedback to the June Board.

5. Discussion

Review of interim governance arrangements

5.1 We have now completed a full cycle of Board meetings under the interim governance arrangements over the course of May and June. The vast majority of the meetings were held via videoconferencing, with the meetings supplemented by the written input of non-attending members who continue to receive the papers to give feedback.

5.2 The meetings have focussed, as agreed, on essential business activity and the meetings have continued to require 1.5-2 hours even with the smaller number of members.

5.3 In order to receive feedback from Boards in a structured way we issued a survey to each Board after their meeting. Some members provided their feedback by e-mail or telephone wholly qualitatively but the majority completed the formal electronic survey.

5.4 The survey, a mix of qualitative and quantitative, focussed on four areas. The quantitative scoring followed a 1 (Poor or Strongly Disagree) to 5 (Excellent or Strongly Agree) scale. The average scores across the Group for each question are set out below.

Board meeting	Ave Score
Do you feel the number of attendees struck the appropriate balance between making the meeting manageable and allowing sufficient scrutiny of the papers?	4.3
Did you feel the meeting allowed you to fully contribute where you wished to do so?	4.5
Did you feel the length of meeting was right? (If no, please give suggestions for what could be refined)	4.3
Do you feel the agenda struck an appropriate balance between covering essential business and allowing the Board to discharge its duties?	4.2
Logistics	
How did you find using Zoom as the platform for the Board meeting? Eg ease of set up and access	4.5
Is there any other platform you think we should consider for future meetings?	N/A
Do you think the number of attendees impacts the quality of the meeting? (If so in what way eg less or more is preferable)	3.8
Was the timing of the meeting convenient for you? If not, what would be a more suitable timing	4.4
Was the method for receiving Board papers suitable?	4.3

Technology Support	
Did you find the technology you currently have available (hardware and software) allowed you to prepare and participate?	4.4
Is there any additional IT hardware or software support we could provide that would enhance your ability to participate eg an additional device such as a laptop, a printer, earphones or enhanced broadband	N/A
Do you feel a user guide for Zoom (or any other platform being used) would be beneficial?	2.7
Lessons Learned	
What do you feel worked well?	N/A
Do you have any suggestions for what we could refine for future meetings?	N/A

Board meeting

5.5 The scoring in all measures is high, indicating that members felt the streamlined Boards skills matrix allowed those in attendance to undertake the appropriate level of scrutiny and personally contribute. Where any additional comment was provided with the answers it was to reinforce a positive response.

5.6 Given the positivity of the feedback in this area, no immediate changes are proposed in relation to Board meetings. The meetings themselves have ranged from 1.5-2 hours even with the smaller number and streamlined agendas. We have already agreed to add an additional Board cycle in July for all RSL Boards and Lowther Homes to ensure Boards remain engaged, up to date and continue to provide scrutiny and oversight during the unprecedented period we are operating in.

Logistics

5.7 The interim arrangements have necessitated changes to the normal Board logistics. The feedback indicates that attending members found Zoom a very accessible platform. In terms of possible alternatives, Microsoft Teams was the main option which emerged as a suggestion. We may trial this for one Board in the July cycle to assess whether it could enhance the meeting experience.

5.8 There was feedback in some instances that the Board would benefit from having either all its members or moving back towards a full complement. In part this feedback also related to how we keep non-attending members engaged. In recognition of this, it is intended that we will ask the Chairs and Lead Executives to have an informal update call after the July Board cycle.

5.9 The other qualitative feedback theme was that members would prefer us to re-engage AdminControl for the delivery of Board papers. It is intended this will be back in place for the next meeting cycle.

Technology

5.10 In recognition that we transitioned to a hitherto unused platform in Zoom, we wanted to ensure that all members have the appropriate technology to support this. We are responding to all requests for additional technology directly with members, for example we have provided laptops, earphones and are also exploring the potential for enhanced broadband connectivity.

5.11 Whilst Zoom's simplicity is reflected in the lack of need for a user guide, it is intended for the July cycle we will formally agree protocols for meetings which will help with areas such as connectivity (such as all participants muting except when speaking).

Group CEO/Chair meetings

5.12 In addition to the survey, the Group CEO and Group Chair have held a videoconference with every streamlined Board. This has allowed members to be updated on our business activity and strategic planning as well as give feedback on the interim governance arrangements.

5.13 The calls were all constructive and reiterated the Board's recognition of the job our staff are doing under challenging circumstances. No specific areas of feedback or requests were raised on the interim governance arrangements.

<u>Governance arrangements – next phase</u>

5.14 On the basis of the feedback, it is proposed that the existing arrangements stay in place until conclusion of the October Board cycle. We will undertake a further review for the October Group Board. By that time, we will have been able to implement and test the refinements from this survey, and it may be possible to consider a timetable for the reintroduction of face to face board meetings.

5.15 Depending on the position with the Scottish Government restrictions, we will explore the possibility of the October Group Board meeting being in person. This would be on the basis of social distancing being applied rigorously, using the larger open space in the Wheatley Academy.

6. Key issues and conclusions

6.1 The survey indicates that our interim governance arrangements are operating well. We are acting on the feedback from individual members as well as seeking to identify means to continuously improve, including Chairs having attended masterclasses by external governance experts on Online Chairing.

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 There are no financial implications arising from this report.

9. Legal, regulatory and charitable implications

9.1 We are continuing to engage with the Scottish Housing Regulator to update them on our interim governance arrangements. We continue to issue Board papers to all non-attending members to ensure they can provide feedback on reports and have this reflected in any decision making.

10. Partnership implications

10.1 There are no partnership implications arising from this report.

11. Implementation and deployment

11.1 It is intended that the existing arrangements are deployed until the end of the October partner Board meeting cycle.

12. Equalities impact

12.1 There is no equalities impact associated with this report.

13. Recommendations

13.1 The Board is asked to:

1) Note the feedback from the Board member survey;
2) Agree the interim governance arrangements remain in place until the conclusion of the October partner Board cycle; and
3) Note the potential for the October Group Board to be held in person