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RSL Borrower Group & DGHP

2019/20 Financial Projections

Index

1. Strategic context

External environment	Customer priorities
• ***UK economy*** – uncertainty around Brexit and the potential implications of a no deal/disruptive exit scenario. • ***Welfare reform*** – Implications of the wider roll out of Universal Credit to new claimants. • ***Cross party support for housing in Scotland*** continues with affordable housing a key priority in the 2019/20 Scottish Government budget • ***Care sector challenges*** – national minimum wage and funding cuts across services will make delivery of care services challenging	• ***Safe and well maintained homes and neighbourhoods*** – investment to date raised standards and expectations with customers seeking further improvements, beyond the original stock condition survey. • ***Quality of services*** – customer feedback sights quality of service as key priority, in particular in relation to the NETS and repairs service. • ***Affordable rents*** – household income continues to be under pressure with employment still difficult for some of our customer groups and very low wage inflation over the last few years. • ***Efficient use of resources*** – getting things right first time seen as key to getting value for money for the rent they are paying.
Financial sustainability	**Key challenges**
• ***Credit rating & funding relationships –*** maintaining our credit rating and credibility in the market place will require us to deliver our planned financial results including operational efficiency savings • ***Surplus generation*** – the group needs to deliver planned savings in order to achieve and maintain a sustainable level of interest cover headroom. • ***Debt servicing and compliance*** – group funding arrangements allow operational flexibility but set clear financial parameters which need to be met going forward (e.g. financial covenants).	• ***Operational performance*** – continued focus on performance improvement key to financial stability and becoming best in class. • Assessment of the impact of ***welfare reforms*** – new solutions and approaches required to maintain rent collection levels. • ***Diversification and growth***– achieving diversification and growth whilst maintaining financial and operational stability of the group • Making resources available for ***additional capital investment whilst keeping rents affordable*** – efficient use of resources and access to low cost borrowing are key. • ***Care environment*** evidences significant pressure given funding constraints and impact of living wage • ***Ongoing investment in services*** – increased use of technology and services designed to meet customer needs.

2. RSL Borrowing Group

Background/Assumptions

The RSL borrowing group includes all of the RSLs currently within the Group with the exception of Wheatley Housing Group. DGHP may accede to the borrowing group in future, and this is illustrated in section 4.

Stock numbers

Between them GHA, Cube, WLHP, Loretto Housing, Barony and DCH currently own or manage approximately 50,600 properties for social rent, 680 mid market rent houses, which are leased to Lowther Homes, and 380 shared ownership or shared equity properties.

Of the 50,600 social housing units there are 102 properties which are classified for demolition. These relate to the GHA owned properties at Gallowgate which are expected to be handed over to the contractor in 2019/20, following completion of the adjacent new build development. There is minimal income included in the projections in respect of these properties. The final outstanding right to buy sales completed in 2018/19 and there are no further sales within the projections. The closing date for applications for tenants' right to buy their properties was July 2016 as set out in the Housing (Scotland) Act 2014 and all sales in 2018/19 related to applications received before this date.

While a small number of properties will be lost in the next twelve months, the plan projects an increase in social housing units as a result of our development and acquisition programme. This development and acquisition programme will meet commitments made by GHA as part of the original stock transfer from Glasgow City Council while delivering a further 2,200 units funded through a combination of the group funding arrangements put in place in 2014, additional funding raised over the last two years from Black Rock, EIB, Allia and HSBC, and the proceeds from the sale of 562 mid-market rent properties to Lowther Homes. Combined with individual acquisitions, the overall development programme is expected to deliver 2,390 additional social housing properties over the next five years. The table below shows the forecast closing social housing stock numbers for the next five years by RSL.

Closing Stock	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
GHA	39,542	39,836	39,916	40,020	40,140	40,190
Cube	3,660	3,723	3,815	3,833	3,851	3,931
WLHP	436	521	641	716	716	779
Loretto	1,465	1,493	1,550	1,571	1,631	1,656
DCHA	5,151	5,303	5,355	5,527	5,733	5,956
Barony	372	372	372	402	402	402
Total	**50,626**	**51,248**	**51,649**	**52,069**	**52,473**	**52,914**

The 679 mid-market and market rent properties forecast to be owned by the RSLs in April 2019 reflect the sale of 562 units to Lowther Homes in October 2018, together with the completion of 272 new units during the year. Over the next five years it is projected that a further 1,178 units properties will be completed funded from the proceeds of the Lowther transaction and existing funding facilities. No additional sales have been built into the projections so by the end of 2023/24 it is forecast that 1,857 mid-market rent properties will be owned by the RSLs. In line with existing arrangements, these will be leased to and managed by Lowther Homes.

Income

Rental income represents on average 90% of the RSL borrowing group's turnover (excl. development grants). Rental income has been estimated based on current average weekly rents adjusted for agreed rent increases to be applied in April 2019. The April 2019 increase approved by all subsidiary boards was 3.3%. The rent growth assumption for subsequent years is shown in the table below:

	2019-20	2020-21	2021-22	2022-23	2023-24	2024 on
Rent Increase	3.3%	3.9%	3.5%	3.5%	3.5%	3.5%

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

Performance	2019-20	2020-21	2021-22	2022-23	2023-24
Voids*	1.2%	1.2%	1.2%	1.2%	1.2%
Bad Debts	1.9%	1.8%	1.8%	1.8%	1.8%

*Adjusted to remove properties void pending demolition

A provision has also been made for an increase in arrears of £4.1m over the first two years of the projections to allow for the potential impact of Universal Credit and other benefit changes.

In addition to rental income from social housing, the RSL group receive income from a number of other sources including lease income from mid-market rent properties managed by Lowther Homes, commercial properties and office rents as well as the provision of additional services such as heating, furnished lets and home contents insurance. As a result of the sale of the mid-market rent properties to Lowther Homes in October 2018, there will be a reduction in lease income in 2019/20 compared to previous years however this is projected to increase over the short to medium term as additional units are developed.

Barony HA, who joined the group in April 2016 also operate a number of care services for which we receive substantial funding predominantly from Local Authority grants. One of the key themes in our draft strategy for 2020-2025, *Inspiring Ambition, Unleashing Potential*, is creating customer value and shaping care services for the future. As part of this, work has been undertaken to assess options for bringing Care services in Wheatley together under one company. The financial projections for the RSL borrower group therefore reflect the transfer of Barony care and Loretto care operations into a new single Group care company from 2020/21. As a result, income and costs for care contracts have been included for one year only.

<u>Operating Expenditure</u>

Management costs

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

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

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

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

£000s	2019-20	2020-21	2021-22	2022-23	2023-24
Employee Costs					
– Direct	43,414	43,572	42,808	42,360	42,185
– Group	14,998	14,986	14,755	14,969	15,186
Total	**58,412**	**58,558**	**57,564**	**57,329**	**57,370**
Running Costs					
– Direct	13,274	12,479	12,679	12,077	12,497
– Group	8,776	8,583	8,683	8,921	9,188
Total	**22,050**	**21,061**	**21,361**	**20,998**	**21,686**

In order to deliver the planned savings a provision of over £3m has been included over the five year period for organisational restructure costs including early retirement and voluntary redundancy (ER/VR) payments. This will include payments in respect of ER/VR for Wheatley Solutions staff who, while seconded to Solutions, are employed by the RSLs within the Group. As employer the relevant RSL will be responsible for any costs associated with ER/VR.

Repairs and Maintenance

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

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

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

	2019-20	2020-21	2021-22	2022-23	2023-24
Repair cost per unit	785	805	810	834	859

This table shows a general increase in the cost per unit over the five year period as assumed inflationary increases offset efficiencies achieved. The majority of efficiencies assumed will be delivered via our joint venture entity City Building (Glasgow) LLP. Based on City Building Glasgow's updated Business Plan it is projected that the following discount on repair costs will be achieved.

	2019-20	2020-21	2021-22	2022-23	2023-24
CBG Discount £000	2,750	3,000	3,250	3,250	3,250

Demolition Costs

Within our projections it is assumed that 102 properties will be handed over to a contractor for demolition during 2019/20. Costs associated with the demolition, including the physical demolition cost, site security and home loss and disturbance payments made to tenants have been estimated and reflected within the projections. These costs have been estimated at £0.7m with the majority of this incurred in the first year.

Other Provisions

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

- A Helping Hand Fund of £795k in the first year of the plan to assist those in financial difficulty, particularly those moving in and out of employment or whose benefits are affected by the introduction of Universal Credit.

- Better Lives Funding totalling £2.0m over the first five years of the projections. This is currently managed and distributed locally to fund community initiatives and projects.
- The interest due to GHA on its £30m convertible loan will be paid directly to the Foundation as GHA's contribution towards its activities. Combined with direct donations to the Foundation of £700k-£950k per annum, this will support projects and initiatives including educational attainment, tackling poverty, social inclusion, employability, sports and arts which will benefit tenants across the Group.
- £1.4m per annum for tenancy support services provided by Group subsidiary Loretto
- A handyperson service to help our vulnerable tenants with minor repairs within their home at a cost of £120k per annum
- £2.6m each year to fund our community improvement partnership with the police and fire service as well as the wider cost of the service

Operating Cost per Unit

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

	2019-20	2020-21	2021-22	2022-23	2023-24
Operating Expenditure	**142,209**	**133,181**	**128,244**	**125,597**	**124,171**
Average Stock (Social)	50,937	51,449	51,859	52,271	52,694
Operating Cost per Unit	**2,792**	**2,589**	**2,473**	**2,403**	**2,356**

This shows that over the five year period operating cost per unit reduces by 16%. This is due to the significant efficiency savings assumed in management costs coupled with the growing stock base through our new build programme.

Investment & Growth

Capital investment programme

Significant investment in our housing properties has been completed over the past few years with the majority of our stock meeting or exceeding current housing quality and energy efficiency standards. Our priority going forward is therefore to maintain this standard by engaging with our customers and delivering their priorities in terms of further improvements to their homes. For the small number of properties which don’t currently meet the standard, provision has been made in our financial projections.

The planned programme of investment within the projections has been informed by our detailed knowledge of the stock, investment priorities identified by our customers, and the latest stock condition surveys. During 2018/19 a full refresh of our five year investment programme was undertaken in collaboration with City Building (Glasgow) LLP, our joint venture vehicle who will deliver the majority of works in the west of Scotland, and Dunedin Canmore’s investment team operating in the east. This revised programme is intended to ensure on going lifecycle component replacements and compliance works are carried out with resources made available to deliver the investment our customers want.

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

Stock Improvement programme £000s	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Total Years 1-5
GHA*	34,595	31,737	28,483	27,722	28,994	151,531
Cube	5,496	3,527	4,104	4,496	4,311	21,935
WLHP	206	220	209	184	421	1,239
Loretto	1,715	2,065	796	1,080	1,178	6,836
DCH	3,659	2,472	4,860	4,231	4,225	19,447
Barony	396	423	130	210	335	1,494
Total Stock Improvement Programme	**46,068**	**40,444**	**38,581**	**37,924**	**39,465**	**202,483**
Capitalised Repairs	9,643	9,929	10,224	10,529	10,842	51,167
Medical Adaptations	2,028	2,038	2,048	2,058	2,068	10,241
Capitalised staff costs	3,475	3,544	3,615	3,687	3,761	18,082
Total Capital Investment	**61,214**	**55,956**	**54,468**	**54,198**	**56,135**	**281,972**

*Total investment of £229m over 5 year period when all capitalised repairs and other costs are included

New Build

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

	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Units Completed						
- Social	**684**	**401**	**420**	**404**	**441**	**2,350**
- MMR	**230**	**283**	**184**	**260**	**221**	**1,178**
Total	**914**	**684**	**604**	**664**	**662**	**3,528**
Development Costs* £000s						
- Social	68,720	50,527	65,899	68,294	66,100	**319,539**
- MMR	31,976	22,988	31,331	38,809	31,172	**156,275**
Total	**100,696**	**73,515**	**97,229**	**107,102**	**97,272**	**475,814**
Grant Income £000s						
- Social	30,959	28,894	33,089	36,306	30,993	**160,242**
- MMR	11,756	11,792	13,259	11,608	7,628	**56,043**
Total	**42,715**	**40,686**	**46,349**	**47,915**	**38,622**	**216,285**

**excludes staffing, development fund and individual acquisitions*

In addition to this a development fund provision of £4.4m has been assumed to support our development programme. An allowance of £2m for the acquisition of individual properties has also been included which is projected to deliver a further 40 units.

Cost inflation

Inflation during 2018/19 moved downwards, easing some of the changes in currency valuations seen after the Brexit vote, and in December 2018 RPI was reported at 2.7%, with CPI at 2.1%. The outlook for inflation will depend on the nature of the UK's exit from the EU and, as at the present time, there is significant uncertainty in relation to the short term projections of UK inflation. We do however anticipate CPI to move upwards to 3% as the expectation is for prices of imports and goods from the EU to increase. Longer term the Bank of England remains committed to delivering on its objective of a 2% CPI target. A level of prudence has been built into the longer term inflation forecasts.

The general cost inflation rate (RPI) assumed within the financial projections are shown in the table below. This will apply to the majority of costs, with the main exception being salary costs which are assumed to increase by 2% each year.

	2019-20	2020-21	2021-22	2022-23	2023-24
General cost inflation rate	2.50%	3.00%	3.00%	3.00%	3.00%

RSL Borrowing Group Financial Projections – next 5 years

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

Statement of Comprehensive Income

	2019-20	2020-21	2021-22	2022-23	2023-24
Turnover	311,601	301,738	311,865	328,082	344,494
Operating Expenditure	(219,042)	(216,276)	(218,673)	(223,350)	(229,673)
Other Income & Gains	(5,375)	(7,244)	(4,873)	(9,869)	(7,890)
Operating Surplus	**87,185**	**78,219**	**88,319**	**94,864**	**106,931**
Operating Margin	*28%*	*26%*	*28%*	*29%*	*31%*
Interest Received	0	113	398	256	300
Interest Paid	(62,868)	(67,261)	(69,832)	(72,541)	(74,629)
Movement in valuation of social housing properties	(15,124)	11,702	14,327	17,830	16,289
Total Comprehensive Income	**9,193**	**22,773**	**33,212**	**40,409**	**48,891**

Turnover

Turnover is forecast to reduce between years 1 and 2 due to a reduction in grant income received to fund our new build programme. In subsequent years this grant income remains relatively stable and the growth in turnover is driven by assumed rent increases and income received from the additional properties completed.

Operating Expenditure

Operating expenditure is projected to reduce initially as the RSL borrowing group realise efficiency savings in management costs and short term costs such as demolition are no longer incurred. Thereafter costs increase steadily as inflationary increases offset the further management cost savings assumed. In real terms i.e. excluding inflation and depreciation operating cost per unit will decrease by 16%.

Operating Surplus (Margin)

It is projected that the RSL Borrowing Group will make an operating surplus in all years with this initially reducing due to the reduction in new build grant recognised in turnover before increasing steadily thereafter. These movements in new build grant income together with assumed valuation adjustments in investment properties result in the margin fluctuating between 26% and 31% over the five year period. Excluding the impact of grant income and valuation adjustments, the underlying operating margin increases from 13% in 2019/20 to 22% by 2023/24. This is due to increased turnover from new units and rent increases, and operating expenditure savings.

Funding Costs

In a change from previous years, projected interest received relates solely to interest receivable on cash balances as the return due to be paid by Lowther to GHA in respect of the equity type loan will be fully redirected to the Foundation. Services with an equivalent amount of costs have also been transferred meaning the RSL borrowing group is in a neutral financial position. The movement in interest received is due to an increase assumed in the interest receivable rate and fluctuations in the level of cash held.

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

Total Comprehensive Income

It is projected that the RSL Borrower Group will make a surplus in 2019/20 as a result of valuation adjustments. This surplus increases to £48.9m by year 5 as a result of additional income generated from new units, operating cost efficiencies and assumed increases in the value of properties following investment works.

Statement of Financial Position

	2019-20	2020-21	2021-22	2022-23	2023-24
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing Properties	1,827,917	1,862,672	1,930,745	1,994,170	2,049,488
Investment Properties	106,739	138,068	160,106	191,203	219,178
Other Fixed Assets & Investments	71,700	71,075	70,831	70,557	71,912
Total Fixed Assets	**2,006,355**	**2,071,815**	**2,161,682**	**2,255,929**	**2,340,578**
Debtors Due < 1 year	53,490	55,481	54,939	54,003	54,007
Cash	15,000	15,000	24,936	15,000	15,000
Creditors Due < 1 year	(115,321)	(110,152)	(112,363)	(112,434)	(100,850)
Net current assets/(liabilities)	**(46,831)**	**(39,671)**	**(32,488)**	**(43,431)**	**(31,843)**
Loans	(1,238,007)	(1,287,854)	(1,351,692)	(1,394,587)	(1,441,934)
Pension Liability	20,603	20,603	20,603	20,603	20,603
Other Creditors & Provisions	(2,176)	(2,176)	(2,176)	(2,176)	(2,176)
Long Term Liabilities	**(1,219,580)**	**(1,269,428)**	**(1,333,265)**	**(1,376,161)**	**(1,423,507)**
Net Assets	**739,944**	**762,717**	**795,929**	**836,337**	**885,228**
Capital & Reserves	**739,944**	**762,717**	**795,929**	**836,337**	**885,228**

Housing and Investment Properties

Housing and investment properties are projected to increase in value by 22% to just over £2.25bn over the five year period as a result of value added through investment in existing stock and additional units developed.

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

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

Current Assets/Liabilities
Short term debtors are forecast to increase over the first two years primarily as a result of assumed increases in rent arrears of £4.1m. This increase is intended to provide for the potential impact of welfare benefit reforms and in particular the full roll out of Universal Credit. In later years a gradual reduction in arrears has been assumed resulting in a decrease in debtors.

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

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

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

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

Cashflow strength
A continued focus within the RSL borrowing group remains on absolute cash generation capacity. When considering our position we look to the amount of cash that the business generates from its operations, strip out accounting adjustments, and deduct the costs

invested through our repairs and on-going capital maintenance and enhancement programmes. This calculation we base on our Earnings before Interest, tax, depreciation and amortisation (EBITDA) and then deduct our major capitalised repairs – this being defined as EBITDA-MRI.

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

	2019-20	2020-21	2021-22	2022-23	2023-24
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Turnover	**251,267**	**257,417**	**268,926**	**281,231**	**295,118**
Operating Costs (excl Depreciation)	(142,209)	(137,177)	(136,054)	(137,244)	(139,756)
EBITDA	**109,058**	**120,240**	**132,871**	**143,988**	**155,362**
Capitalised Repairs & Maintenance Component Costs	(20,995)	(22,402)	(25,971)	(26,454)	(32,324)
Strategic Regeneration / Enhancement Projects	(40,219)	(33,554)	(28,497)	(27,745)	(23,812)
EBITDA MRI	**47,844**	**64,285**	**78,403**	**89,789**	**99,227**
Interest (net)	62,351	65,339	67,624	70,509	72,423
Cover	**(14,507)**	**(1,054)**	**10,779**	**19,280**	**26,803**
%age	77%	98%	116%	127%	137%

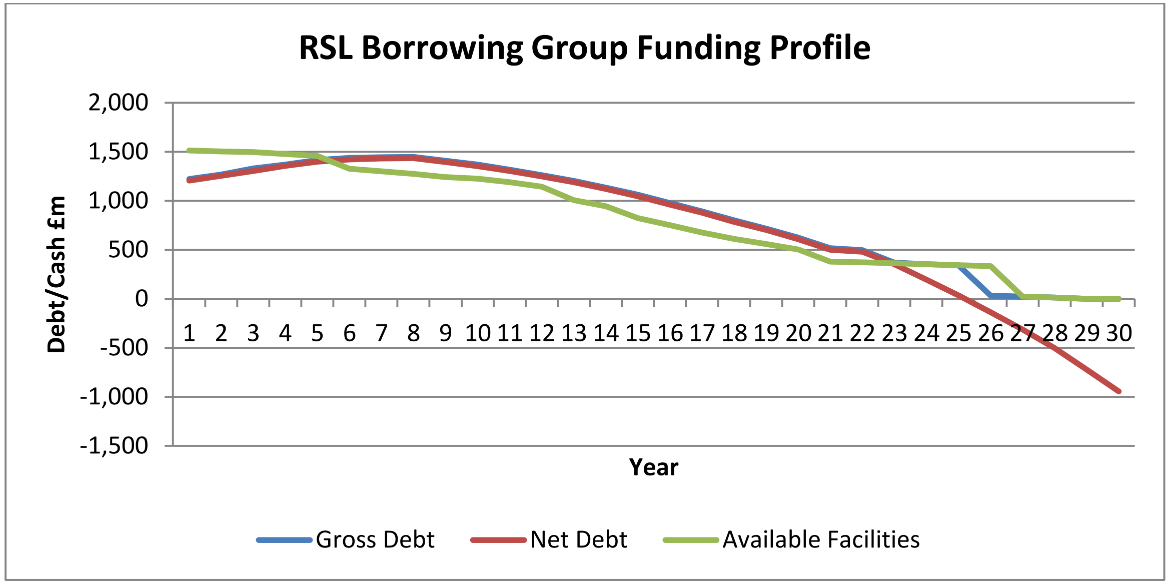
This demonstrates a steady improvement over the period as efficiency savings in operating costs are achieved and additional income is generated from new units and rent increases. Interest costs are forecast to increase over the period as borrowing increases however our projections show there will be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

Funding and debt profile

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

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

Key Funding Indicators	
Peak Debt (Gross)	£1,448.3m
Peak Debt (Net)	£1,433.3m
Peak Debt Year	Year 8
Closing Cash	£944.6m



Key financial parameters / covenants

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

		Year 1	Year 2	Year 3	Year 4	Year 5
DSCR	RSL GROUP	2.0x	2.1x	2.3x	2.2x	2.1x
	Target (> than)	**1.4x**	**1.4x**	**1.4x**	**1.4x**	**1.4x**
Interest Cover (Banks)	RSL GROUP	150%	141%	136%	127%	137%
	Target(> than)	**110%**	**110%**	**100%**	**100%**	**110%**
Debt per Unit	RSL GROUP	£23,412	£23,997	£24,864	£25,298	£25,802
	Target(< than)	**£26,000**	**£26,500**	**£27,000**	**£27,000**	**£27,000**
Debt Service	RSL GROUP	19	17	16	14	13
	Target (< than)	**20**	**19**	**18**	**17**	**16**

The table above shows that based on the RSL Borrowing Group projections all funding covenants will be met. In addition to these covenants the Board has set several Golden Rules which determine the parameters for the financial position of the RSL Borrower Group. These include a minimum level of headroom on our financial covenants and ensure sufficient liquidity is maintained.

The RSL Borrower Group is funded on a ‘secured’ basis and as a result the housing assets of the RSL borrower group need to be of sufficient value to provide security cover for the borrowing within WFL1. The 2017/18 external valuations adjusted for new build properties delivered within the year and the security charging exercises currently ongoing, project a surplus funding capacity of circa £53m at the start of 2019/20. This capacity increases as the development programme progresses and there is sufficient value to cover all the new funding tranches modelled in the business plan.

3. DGHP

Background/Assumptions

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

- up to £125 million of additional investment capacity for communities through an accelerated home improvement programme;
- keeping rents more affordable than they would otherwise have been;
- hundreds of new homes across the region including many designed for older people;
- an expanded range of excellent services.

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

- The development of 750 new properties, over and above the 250 planned already by DGHP
- Planned rent increases of 2% a year for the next 3 years
- £1 million in additional staff and management costs from 2020/21 to reflect service and operating model development
- Maintaining planned expenditure on compliance related works
- Accelerated investment and a smoother profile to support effective delivery
- No assumption of staff or other efficiencies
- Prudent funding assumptions

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

Stock numbers

As at March 2019 DGHP owned 10,342 homes comprising 6,994 houses and 3,348 flats (including 4 in a block). This number is assumed to increase to 11,335 by March 2025 as a result of new build. Of the c.1,000 new units assumed to complete over the period 750 new properties will be delivered as a result of the partnership with Wheatley Group. The table below shows the assumed stock profile over the period.

Stock Numbers (social)	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Opening Units	10,342	10,378	10,460	10,635	10,835	11,085
New Build – existing programme	36	82	125	-	-	-
New Build – additional	-	-	50	200	250	250
Closing Units	**10,378**	**10,460**	**10,635**	**10,835**	**11,085**	**11,335**

Rental Income

On average social rents will be £79.84 per week in the transfer stock and £93.43 in 2019/20 for new build. The original 2019/20 DGHP Business Plan assumed that a rent increase of 3.75% and 3.0% would apply to transfer and new build properties respectively in April 2020. In subsequent years a rent increase of 3.0% was assumed for all social housing stock until 2038, with increases of 2% only thereafter. However, in line with commitments made to tenants should the partnership with Wheatley proceed, these increases have been reduced to 2% only for three years. This is equivalent to a 3.75% reduction over the three years for transfer properties and 3% for new build. The table below shows assumed rent increases with and without a partnership with Wheatley Group.

Rent Increase	2020-21	2021-22	2022-23	2023-24	2024-25	…	2038-39
Transfer Stock							
- with partnership	2.00%	2.00%	2.00%	3.00%	3.00%	…	2.00%
- no partnership	3.75%	3.00%	3.00%	3.00%	3.00%	…	2.00%
New Build							
- with partnership	2.00%	2.00%	2.00%	3.00%	3.00%	…	2.00%
- no partnership	3.00%	3.00%	3.00%	3.00%	3.00%	…	2.00%

In addition to social housing, DGHP also collect £354k per annum of rental income in respect of garages and garage sites. This is assumed to increase in line with housing stock. A further £550k is projected to be received from the rental of 100 mid market properties. In line with grant conditions rents for mid market properties are assumed to be linked to CPI.

<u>Operating Performance</u>

Void losses are assumed at 1% throughout for the core rented stock, in line with operational targets and current performance. In addition, approximately 100 properties, all tenement flats and mostly in north west Dumfries, are currently held as void and unlettable. Including these, the void rate in the transfer stock increases to 1.25%.

The provision for bad debts has been assumed at 2% of gross rental income in 2019/20. To manage the impact of Universal Credit this is assumed to increase to 2.5% by 2022/23. Void and bad debt assumptions are shown in the table below.

	2019-20	2020-21	2021-22	2022-23	2023-24
Voids (Transfer Stock)	1.25%	1.25%	1.25%	1.25%	1.25%
Voids (New Build)	1.00%	1.00%	1.00%	1.00%	1.00%
Bad Debts	2.00%	2.00%	2.25%	2.50%	2.50%

Other Income

In addition to rental income, a further £2.1m is expected to be generated by DGHP in 2019/20 from other income streams. This is comprised of the following:-

- Service charge income – In addition to rental income DGHP charge tenants for services such as stair cleaning. Income of £158k per annum (net of voids) is assumed to be received in respect of this in 2019/20. This is assumed to increase in line with costs each year.
- Leased properties – DGHP lease 34 properties across four sites to other organisations generating £191k of income each year. This income is assumed to remain fixed i.e. does not increase with inflation
- Factoring – £58k of income is assumed to be received each year from the factoring of 627 properties in private ownership within DGHP's stock areas
- Temporary Accommodation - £846k is projected to be received from DGC in 2019/20 reducing to £323k in 2020/21 before ceasing
- Aids and Adaptations - £300k of grant income assumed to be received each year to fund medical adaptations.
- Renewable Heat Incentive (RHI) grant - £420k of income each year is projected to be received in each of the first three years
- Lottery funding for Young Persons Project of £90k is expected to be received in 2019/20 increasing each year until September 2022

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

Other Income	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Service Charges	158	161	164	168	171	175
Leased Properties	191	193	191	191	191	191
Factoring	58	60	61	62	63	65
Aids & Adaptations Grant	300	306	312	318	325	331
Temporary Accommodation	846	323	0	0	0	0
RHI Grants	420	428	437	0	0	0
Young Person Project	90	94	99	52	0	0
Total Income	**2,063**	**1,565**	**1,264**	**791**	**750**	**761**

Staff and Other Management Costs

Staff costs are based on the structure implemented in 2016, plus some temporary posts created in response to the need to accelerate the investment and compliance programmes, and the additional costs resulting from the interim posts at senior level. Total staff costs in 2019/20, including on costs are £8,311k reducing to £8,045k in 2020/21. Provision is made for a salary increase of 3% in April 2020, as agreed between COSLA and the recognised Trade Unions. Thereafter salary costs are assumed to increase by 2% each year.

Other management costs are largely based on the 2018/19 actual costs. The total spend on direct costs and overheads is forecast to be £4,873k in 2019/20 with the main areas of spend being travel costs £508k, premises £600k, managed services £400k and insurance £575k. While it is anticipated that procurement savings will be achieved as a result of DGHP joining the Wheatley Group no assumptions have been made for these within the Business Plan.

A provision has however been made for additional costs of £1m per annum from 2020/21 on. This is intended to cover any additional costs that may arise as a result of service and operating model development including the provision of additional services, such as the handyperson service, and improvements in technology and digital services.

Repair Costs

DGHP's repairs service is a key priority for customers. The existing repairs contracts are due to expire in Spring 2020. Wheatley is committed to supporting DGHP to set up its own in-house repairs service whereby the existing operatives would become directly employed by DGHP. It is anticipated that repairs and maintenance in-house will provide the opportunity to improve services for customers, ensuring all repairs are completed on the first visit. We also expect that this will generate a cost saving however as the structure of the new service has yet to be finalised this saving is not assumed within the financial projections. Costs for repairs and maintenance are therefore assumed in line with current contract costs at £10.8m per annum, with above inflationary increases assumed in reactive repairs, voids and heating repairs.

In addition, the plan allows £6.5m for compliance work in 2019/20, focusing on fire safety, asbestos management and electrical safety, with a further £7.5m by the end of 2023/24 and then an ongoing spend of £1m every year. The table below shows the profile of spend, including assumed inflationary uplifts over the period.

Repairs and Maintenance	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Reactive repairs	4,774	4,988	5,088	5,194	5,352	5,577
Void repairs	2,708	2,830	2,886	2,944	3,003	3,063
Heating	1,467	1,533	1,564	1,595	1,627	1,659
Landscaping	970	989	1,009	1,029	1,050	1,071
Other	405	413	421	430	438	447
Minor Planned Works	522	532	543	554	565	576
Compliance	6,507	3,128	1,447	1,512	1,735	1,104
Total Repair Costs	**17,353**	**14,414**	**12,958**	**13,257**	**13,769**	**13,498**

Capital Investment

Investment in current housing stock

The partnership with Wheatley will enable DGHP to release additional funds of up to £125m to fund improvements to existing homes and build hundreds of new homes. The focus of the investment programme will be on ensuring we meet and maintain properties to current regulatory standards such as SHQS and deliver additional works to windows, roofs and external walls to meet the EESSH standard on energy efficiency. The additional funding made available through partnership will allow this work to be accelerated and will enable other works identified by tenants as a priority such as improvements to common areas in flats and environmental works such as new paths and fencing to be carried out.

Our investment programme will also be informed by a detailed stock condition survey, an update to which is currently underway. Initial results show that there is sufficient provision (in the region of £50m over the 30 year horizon) within the plan to carry out the works identified in the survey and deliver additional works identified as a key priority by tenants in the next few years.

The table below shows the profile of capitalised investment works (including inflation) over the first 15 years including acceleration assumed.

£000s	Original	Adjustment	Revised
2019-20	17,418	-	17,418
2020-21	20,362	-	20,362
2021-22	12,834	-	12,834
2022-23	9,138	3,500	12,638
2023-24	9,073	3,500	12,573
2024-25	18,471	(6,000)	12,471
2025-26	12,273	1,500	13,773
2026-27	14,494	-	14,494
2027-28	22,481	(7,000)	15,481
2028-29	15,779	-	15,779
2029-30	11,409	2,500	13,909
2030-31	11,723	2,000	13,723
2031-32	15,319	-	15,319
2032-33	12,173	2,000	14,173
2033-34	16,379	(2,000)	14,379

<u>Investment in new housing</u>

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Development Costs £000	**9,949**	**24,351**	**27,635**	**35,047**	**38,797**	**22,613**	**158,392**
- Existing Programme	9,949	19,520	9,656	-	-	-	**39,125**
- New	-	4,831	17,979	35,047	38,797	22,613	**119,267**
Grant Income £000	**4,751**	**8,107**	**21,105**	**18,571**	**20,296**	**6,901**	**79,730**
- Existing Programme	4,751	8,107	6,799	-	-	-	**19,657**
- New	-	-	14,306	18,571	20,296	6,901	**60,073**
Units Completed	**36**	**82**	**175**	**200**	**250**	**250**	**993**
- Existing Programme	36	82	125	-	-	-	**243**
- New	-	-	50	200	250	250	**750**

<u>Funding</u>

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

As the loan agreement and covenants between DGHP and Dexia have been a significant factor in limiting DGHP's capacity to raise new funding for development, it has been assumed that this debt will be refinanced by the end of the current financial year. Options are currently being considered for the form this new funding will take and discussions are underway with funders however our Business Plan assumes that the THFC and Allia facilities, totalling £55m, will remain in place subject to lender consent, and the £130m Dexia facility will be prepaid. New funding of c.£200m will be raised from a combination of longer-term institutional debt, revolving credit facilities, additional Allia facilities and potentially another Scottish Government-backed debt instrument. Provision has been made within the financial projections for the breakage costs associated with the Dexia loan and the arrangement fees from the new funding.

The THFC and Allia loans are on a fixed rate basis and rates and repayments have been assumed in line with the respective loan agreements. The business plan assumes any new institutional debt and revolving credit facilities to be arranged at market-facing rates (fixed rate and LIBOR plus margin respectively).

Long-term GBP interest rates are at, or close to, historic all-time lows, however there is a great deal of uncertainty in the market with differing predictions as to whether they will increase or decrease in the short to medium term. Our financial projections therefore reflect the current low rates but assume an increase over the next five years to a long term rate of 5% as shown in the table below.

Interest rate assumptions	Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25
Interest Payable (LIBOR)	3.5%	4.0%	4.5%	4.5%	5.0%

Financial projections – Existing Accounting Policies

The following sections show the projected financial statements for DGHP based on their current accounting policies. These are different from those applied by the Wheatley Group. A restatement is included below which shows them on the same basis.

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	Year 0 2019-20 £'000	Year 1 2020-21 £'000	Forecast Year 2 2021-22 £'000	Year 3 2022-23 £'000	Year 4 2023-24 £'000	Year 5 2024-25 £'000
Net rental income	43,352	44,450	45,993	47,742	50,438	53,160
Other Income	2,963	1,565	1,264	791	750	761
Grant Amortisation	834	884	1,019	1,204	1,430	1,699
Total Income	**47,148**	**46,899**	**48,276**	**49,737**	**52,618**	**55,619**
Staff Costs (net)	(7,703)	(7,730)	(7,866)	(8,022)	(8,182)	(8,346)
Overheads	(4,873)	(5,608)	(5,587)	(5,693)	(5,826)	(5,998)
Repairs and maintenance costs	(17,353)	(14,414)	(12,958)	(13,257)	(13,769)	(13,498)
Major repairs	(3,435)	(2,365)	(1,530)	(1,121)	(1,116)	(2,163)
Bad Debts	(905)	(927)	(1,073)	(1,231)	(1,300)	(1,369)
Depreciation	(8,009)	(8,872)	(9,894)	(10,754)	(11,861)	(13,277)
Other Costs	(1,560)	(222)	-	-	-	-
Operating Expenditure	**(43,838)**	**(40,138)**	**(38,908)**	**(40,078)**	**(42,055)**	**(44,650)**
Operating Surplus	**3,310**	**6,761**	**9,368**	**9,658**	**10,563**	**10,969**
Operating Margin	***7%***	***14%***	***19%***	***19%***	***20%***	***20%***
Net Finance Costs	(18,614)	(7,301)	(7,624)	(8,036)	(8,914)	(10,040)
Total comprehensive income	**(15,304)**	**(539)**	**1,744**	**1,622**	**1,649**	**929**

Income

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

Other income includes grants and funding received for specific short term initiatives in addition to monies received from tenants and factored owners in respect of services provided. The reduction over the period is due to funding for certain initiatives such as temporary accommodation and grants coming to an end. 2019/20 also includes £900k of income in respect of the sale of NSSE properties.

Grant income received to fund new build properties is released to the statement of comprehensive income over the life of the asset. Grant amortised increases over the period as a result of grant assumed to be received from the Scottish Government to fund the development programme.

Operating Expenditure

Staffing costs are assumed to remain relatively constant over the period with the only reductions as a result of temporary posts coming to an end in the first couple of years. Within overheads an additional provision of £1m has been assumed from 2020/21 to cover any potential additional costs that may result following partnership such as alignment of staff terms and conditions. It is anticipated that there will be some procurement savings from joining Wheatley Group however these have not been assumed within the financial projections.

Repairs and maintenance and major repairs are higher in the first two years due to provisions for compliance works and EESSH. Excluding these, repairs costs are assumed to remain relatively stable and are in line with current contract costs. Expected savings as a result of bringing the repairs service in house have not been reflected.

Other costs relates to the cost of sale of the NSSE properties and short term initiatives such as temporary accommodation

Operating Surplus

DGHP are projected to make an operating surplus in all years of the plan. This surplus in projected to increase year on year as a result of rent increases and additional properties developed. Operating margin is expected to increase from 7% in 2019/20 to 20% by 2023/24.

Funding costs

Funding costs include provision for the expected costs of replacing the existing £130m Dexia funding with a new private placement and revolving credit facility during 2019/20. Thereafter there is a modest increase in interest payable each year as a result of increased borrowing to fund the development programme and assumed increases in variable interest rates.

Comprehensive Income

The partnership plan for DGHP is forecasting a loss in the first two years largely as a result of costs to refinance loans and increased repair costs resulting from compliance work. Over the medium to longer term, increases in income as a result of the development programme are projected to offset this and DGHP moves into surplus.

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	2019-20 £'000	2020-21 £'000	Forecast 2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Housing assets	231,952	268,150	299,116	336,294	375,913	397,833
Other Fixed Assets	1,148	893	606	466	464	462
Total Fixed Assets	**233,101**	**269,043**	**299,722**	**336,760**	**376,377**	**398,295**
Current Assets	47,828	18,503	10,462	8,910	8,987	9,065
Current Liabilities	(4,910)	(5,008)	(5,108)	(5,211)	(5,315)	(5,421)
Net Current (Liabilities)/Assets	**42,918**	**13,495**	**5,353**	**3,700**	**3,672**	**3,644**
Long term liabilities	(262,866)	(269,925)	(290,718)	(324,481)	(362,421)	(383,381)
Provisions (LGPS Pension)	(2,205)	(2,205)	(2,205)	(2,205)	(2,205)	(2,205)
Net Assets	**10,948**	**10,408**	**12,152**	**13,774**	**15,423**	**16,352**
Total Reserves	**10,948**	**10,408**	**12,152**	**13,774**	**15,423**	**16,352**

Fixed Assets

DGHP hold housing assets at cost less depreciation. Housing assets are expected to increase by over 70% over the period as a result of planned investment in existing stock and in new properties.

Other Fixed Assets include our fixtures and fittings and IT Equipment, the value decreases each year as annual depreciation charges exceed additions.

Net Current (Liabilities)/Assets

Current assets include rent and other debtors and cash balances with the reduction in assets over the period predominantly due to a reduction in cash. As a result of recent fund raising activity DGHP had cash balances of £53m as at 1st April 2019. This is projected to reduce as funds are required to deliver the investment and development programme. Current liabilities remain relatively constant over the period with small increases in creditors linked to inflationary increases.

Long Term Liabilities

Long term liabilities include loans and grant received in respect of our development programme. Grant received is held in long term liabilities as deferred income and, under DGHP’s accounting policies, released to the Statement of Comprehensive Income over the life of the asset. Long term liabilities therefore increase over the period as grant is received in respect of our development programme and additional debt is drawn from our revolving credit facility to fund investment in new and existing properties.

Reserves

As a result of losses in the first two years reserves initially reduce before increasing in later years as income exceeds costs and we move to a surplus position.

Financial projections – Alignment of accounting policies

The tables below show the projected financial statements restated to bring the accounting policies applied in line with those used by the Wheatley Group. An exercise to fully align all accounting policies will be carried out in due course however this gives some indication of the expected impact of the change.

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME (RESTATED)	Year 0 2019-20 £'000	Forecast Year 1 2020-21 £'000	Year 2 2021-22 £'000	Year 3 2022-23 £'000	Year 4 2023-24 £'000	Year 5 2024-25 £'000
Net rental income	43,352	44,450	45,993	47,742	50,438	53,160
Other Income	2,963	1,565	1,264	791	750	761
Grant Income	2,894	7,123	11,246	18,005	20,030	20,431
Total Income	**49,209**	**53,139**	**58,503**	**66,538**	**71,218**	**74,352**
Operating Expenditure	**(43,809)**	**(40,109)**	**(38,879)**	**(40,049)**	**(42,026)**	**(44,621)**
Gain on Investment Properties	74	75	76	76	77	78
Operating Surplus	**5,474**	**13,104**	**19,700**	**26,565**	**29,270**	**29,808**
Operating Margin	***11%***	***25%***	***34%***	***40%***	***41%***	***40%***
Net Finance Costs	(18,614)	(7,301)	(7,624)	(8,036)	(8,914)	(10,040)
Movement in Value of Social Housing	(11,380)	(22,161)	(17,285)	(21,455)	(26,178)	(25,193)
Total comprehensive income	**(24,521)**	**(16,357)**	**(5,209)**	**(2,926)**	**(5,822)**	**(5,425)**

As the projected statement of comprehensive income above shows, the primary difference between the accounting policies is in the treatment of fixed assets and new build grant funding. Under the policies adopted by Wheatley, housing properties are assumed to be carried at valuation with assumed movements included in total comprehensive income. As properties are carried at valuation, under FRS 102, grants received in respect of new build developments are released to the statement of comprehensive income in full on completion of the properties using the performance method. Under DGHP's current accounting policy grant would be released over the life of the asset.

Over the first five years, total comprehensive income is reduced as a result of the assumed reduction in valuation of social housing properties arising from the difference between the EUV-SH valuation of new build properties compared to the gross cost of development.

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION (RESTATED)	Forecast 2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Housing Properties	281,161	295,227	308,937	324,688	338,159	334,914
Investment Properties	7,494	7,569	7,645	7,721	7,798	7,876
Other Fixed Assets	1,148	893	606	466	464	462
Total Fixed Assets	**289,803**	**303,689**	**317,188**	**332,876**	**346,422**	**343,253**
Current Assets	47,828	18,503	10,462	8,910	8,987	9,065
Current Liabilities	(14,061)	(15,143)	(25,102)	(25,770)	(26,139)	(12,715)
Net Current (Liabilities)/Assets	**33,767**	**3,360**	**(14,640)**	**(16,860)**	**(17,153)**	**(3,651)**
Long term liabilities	(185,038)	(184,874)	(185,581)	(201,976)	(221,051)	(236,809)
Provisions (LGPS Pension)	(2,205)	(2,205)	(2,205)	(2,205)	(2,205)	(2,205)
Net Assets	**136,328**	**119,971**	**114,761**	**111,835**	**106,013**	**100,588**
Total Reserves	**136,328**	**119,971**	**114,761**	**111,835**	**106,013**	**100,588**

As a result of the restatement of the statement of financial position there is a substantial increase in opening net assets. This is due to:

- the recognition of new build grant on the completion of the properties as income, previously held in long term liabilities now reported in revenue reserves; and
- the carrying of housing assets at valuation rather than cost.

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

Cashflow strength

While the financial statements are useful these are distorted somewhat by accounting adjustments such as the release of grant income and valuation adjustments. When considering the financial viability of the company we therefore look to the amount of cash that the business generates from its operations, strip out accounting adjustments, and deduct the costs invested through our repairs and on-going capital maintenance programme. This calculation we base on our Earnings before Interest, tax, depreciation and amortisation (EBITDA) and then deduct our major capitalised repairs – this being defined as EBITDA-MRI.

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

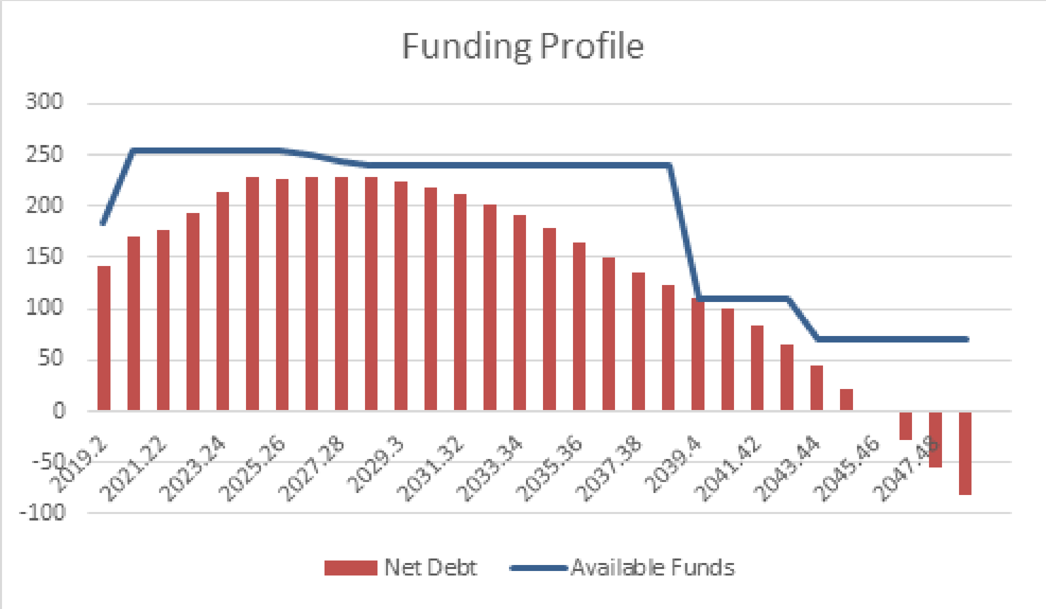
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
EBITDA	10,486	14,750	18,243	19,208	20,994	22,547
Capital Stock Improvements	(17,418)	(20,362)	(12,834)	(12,638)	(12,573)	(12,471)
EBITDA MRI	**(6,932)**	**(5,613)**	**5,409**	**6,570**	**8,421**	**10,076**
Interest (net)	(7,492)	(7,205)	(7,476)	(7,888)	(8,766)	(9,892)
Cover	**(14,424)**	**(12,817)**	**(2,066)**	**(1,318)**	**(345)**	**184**

As this demonstrates we anticipate a relatively steady improvement in both EBITDA and EBITDA MRI over the period as investment and repair costs in respect of compliance works reduce and additional income is generated from new units and rent increases. Interest costs are forecast to increase over the period as borrowing increases however our projections show there will be sufficient income to cover this by 2024/25.

Funding and debt profile

The financial projections for DGHP reflect the refinancing of the current £130m Dexia loan with a £130m private placement and a £70m revolving capital facility. The existing Allia and THFC facilities are assumed to be unchanged. The table and graph below show the key funding indicators and funding profile by facility for DGHP

Debt indicator	Value
Peak debt (net)	£229.4m
Peak debt year	2028/29
Debt repayment year	2045/46
Closing cash	£80.4m



This graph shows DGHP will have sufficient facilities available as a result of the refinancing to fund the development programme. DGHP's debt level will increase in the short term as investment continues in both existing and new build homes. The debt starts to get repaid in 2029/30 of the plan and thereafter the debt levels reduce. By 2045/46, there will be sufficient cash to repay debt with an estimated closing cash balance of £80.4m.

4. RSL Borrower Group Including DGHP

To assess the potential impact of the inclusion of DGHP in the RSL borrower group, the financial projections for both have been consolidated. These projections assume that DGHP join the borrower group from 1st April 2020 and that there will be no impact on the group from the addition of DGHP i.e. the combined plan does not assume any additional savings or costs other than those currently assumed within the individual subsidiaries.

RSL Borrowing Group Financial Projections

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

<u>Statement of Comprehensive Income</u>

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Turnover	311,601	354,877	370,368	394,620	415,713	417,351
Operating Expenditure	(219,042)	(256,385)	(257,552)	(263,399)	(271,699)	(282,016)
Other Income & Gains	(5,375)	129,159	(4,797)	(9,792)	(7,812)	(3,477)
Operating Surplus	**87,185**	**227,651**	**108,019**	**121,429**	**136,201**	**131,859**
Operating Margin	*28%*	*64%*	*29%*	*31%*	*33%*	*32%*
Net Finance Cost	(62,868)	(74,449)	(77,058)	(80,322)	(83,243)	(87,623)
Movement in valuation of social housing properties	(15,124)	(10,459)	(2,958)	(3,625)	(9,888)	5,604
Total Comprehensive Income	**9,193**	**142,743**	**28,003**	**37,482**	**43,070**	**49,840**

The inclusion of DGHP in the RSL Borrower Group from the 1st April 2020 results in a significant increase in both income and costs from 2020/21 onwards. An estimated gain on business combination of £136m, representing the expected net assets of DGHP, has been reflected in other income and gains in 2020/21 contributing to an increase in total comprehensive income to £142.7m in that year. As the above shows it is anticipated that an overall surplus will be realised in all years with this increasing over the period as a result of efficiencies and additional rental income generated from new build and increases. While we anticipate further efficiencies may be realised from DGHP joining the borrower group these have not been assumed.

Statement of Financial Position

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Housing Properties	1,827,917	2,157,899	2,239,681	2,318,858	2,387,648	2,442,460
Investment Properties	106,739	145,637	167,751	198,924	226,977	247,068
Other Fixed Assets & Investments	71,700	71,969	71,437	71,023	72,376	73,071
Total Fixed Assets	**2,006,355**	**2,375,505**	**2,478,870**	**2,588,805**	**2,687,000**	**2,762,599**
Debtors Due < 1 year	53,490	59,240	58,773	57,913	57,994	58,077
Cash	15,000	29,744	31,563	20,000	20,000	20,000
Creditors Due < 1 year	(115,321)	(125,295)	(137,464)	(138,204)	(126,990)	(110,968)
Net current assets/(liabilities)	**(46,831)**	**(36,311)**	**(47,128)**	**(60,291)**	**(48,995)**	**(32,891)**
Loans	(1,238,007)	(1,472,728)	(1,537,273)	(1,596,564)	(1,662,985)	(1,704,848)
Pension Liability	20,603	18,398	18,398	18,398	18,398	18,398
Other Creditors & Provisions	(2,176)	(2,176)	(2,176)	(2,176)	(2,176)	(2,176)
Long Term Liabilities	**(1,219,580)**	**(1,456,506)**	**(1,521,052)**	**(1,580,342)**	**(1,646,763)**	**(1,688,627)**
Net Assets	**739,944**	**882,687**	**910,690**	**948,172**	**991,242**	**1,041,081**
Capital & Reserves	**739,944**	**882,687**	**910,690**	**948,172**	**991,242**	**1,041,081**

It is assumed that at the point DGHP joins the borrower group in April 2020 they will have housing assets worth £281m and debt of £185m, increasing the net assets of the group by £136m. Over the following five years net assets are projected to increase from £876m to £1,041m due to increasing asset values as a result of investment and growth, and forecast surpluses.

Cashflow strength

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

The table below shows the projected EBITDA MRI relative to interest for the first five years following DGHP joining the group.

	2020-21	2021-22	2022-23	2023-24	2024-25
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
EBITDA	134,990	151,114	163,196	176,356	187,044
Capital Stock Improvements	(76,318)	(67,302)	(66,836)	(68,709)	(72,050)
EBITDA MRI	**58,672**	**83,813**	**96,360**	**107,648**	**114,994**
Interest (net)	72,544	75,100	78,397	81,189	85,030
Cover	**(13,872)**	**8,713**	**17,962**	**26,459**	**29,964**
%age	81%	112%	123%	133%	135%

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

The illustrative figures above show interest cover being around 3% lower than the current RSL borrowing group without DGHP from 2021/22 onwards. However, this is based on extremely prudent assumptions in the DGHP business plan, including:

- Provision made for capital investment in existing properties has been maintained at the level in the plan approved by DGHP's board in February 2019. However, this is around £50m higher over 30 years than the Savills stock condition survey completed in October 2019 states is required.
- No VAT savings are assumed on repairs and investment in existing properties. However, this function is being brought in-house from 2020/21, saving between £1m-£2m a year in VAT.
- No efficiency savings are assumed from the partnership with Wheatley; whereas savings in a number of areas are likely to be delivered.
- The assumed cost of new finance raised for DGHP contains significant prudence and should be significantly outperformed.

It is our strong expectation that, taking these factors into account, DGHP will have a positive effect on the borrower group interest cover position. However, at this stage and for consistency, the only adjustments made to the DGHP business plan approved by its board in February 2019 relate to the partnership offer as set out on page 20; principally the rent and new build proposals.

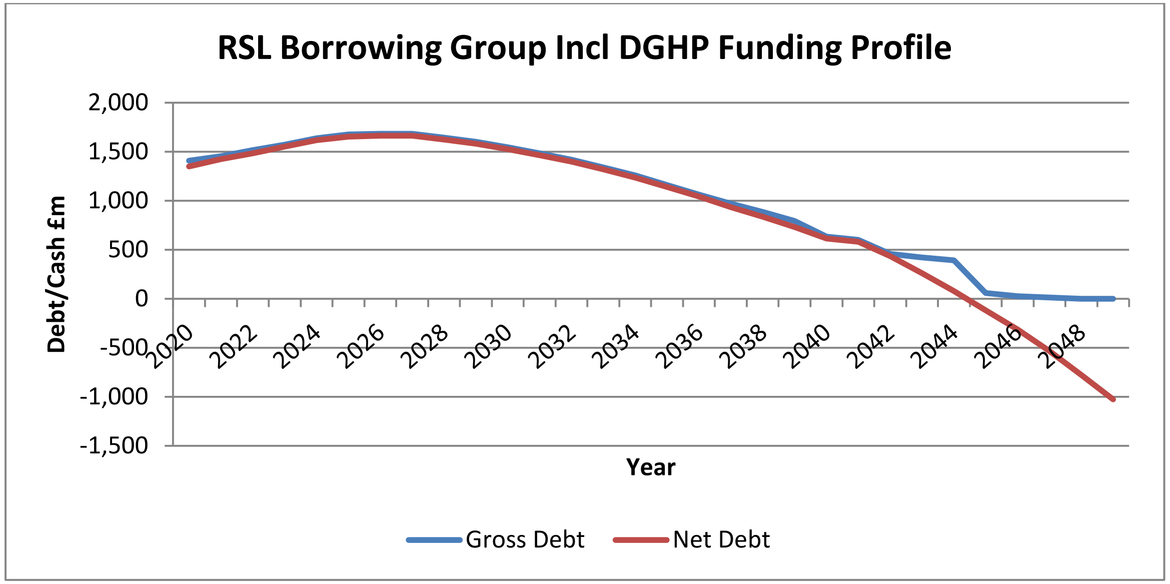
Funding and debt profile

The financial projections for the RSL borrowing group including DGHP reflect the current group funding arrangements through Wheatley Funding Limited 1 ("WFL1"). It has been assumed that the fund-raising by DGHP to raise £200m via a new private placement and revolving credit facility to refinance their existing loan from Dexia will be novated into the RSL borrower group.

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

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

Key Funding Indicators	
Peak Debt (Gross)	£1,684.1m
Peak Debt (Net)	£1,664.1m
Peak Debt Year	2026/27



Key financial parameters / covenants

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

		2020-21	2021-22	2022-23	2023-24	2024-25
DSCR	RSL GROUP	2.2x	2.6x	2.4x	2.3x	2.0x
	Target (> than)	**1.4x**	**1.4x**	**1.4x**	**1.4x**	**1.4x**
Interest Cover (Banks)	RSL GROUP	**133%**	**134%**	**123%**	**133%**	**135%**
	Target(> than)	**110%**	**100%**	**100%**	**110%**	**110%**
Debt per Unit	RSL GROUP	£22,972	£23,651	£24,202	£24,827	£25,148
	Target(< than)	**£26,500**	**£27,000**	**£27,000**	**£27,000**	**£27,000**
Debt Service	RSL GROUP	17	16	14	13	11
	Target (< than)	**19**	**18**	**17**	**16**	**15**

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