



WHEATLEY HOUSING GROUP LIMITED

BOARD MEETING

29 March 2021

By Videoconference

AGENDA

1. Apologies for Absence
2. Declarations of Interest
3. Minutes of meetings held on 24 February 2021 and 19 March 2021 and matters arising
4. Strategic Acquisition -Bellgrove Hotel, Gallowgate TRA [redacted]
5. [redacted]
6. 2021/22 UK and Scottish Government Budget update
7. [redacted]
8. Group Protection update (presentation)
9. Network services contract award – Virgin Media
10. AOCB

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: 2021/22 UK and Scottish Government Budget update

Date of Meeting: 29 March 2021

1. Purpose

- 1.1 The purpose of this paper is to provide an update to the Board on the 2021/22 UK and Scottish Government Budget announcements and the implications for the group.

2. Authorising context

- 2.1 This paper is provided for information only.

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 Budget announcements by the UK and Scottish Governments can have a material impact on our activities, for example in relation to the welfare system, housing grant budgets and taxation. A number of the budget announcements provide greater certainty for us, in particular the Scottish housing capital budget, although at UK level risks remain, such as the uncertainty over the long term position for the £20 weekly Universal Credit increase and the impact this could have on customers.

4. Background

- 4.1 The Budget was delivered by the Chancellor of the Exchequer, Rishi Sunak, on 3 March 2021. It covered the current state of the UK economy and provided updates with respect to existing COVID-19 financial relief measures in place and the Government's plans to address the longer term economic effects of the pandemic.

- 4.2 Certain fiscal powers are devolved to the Scottish Government and they released their draft budget in January 2021, prior to the UK Budget announcement. As part of the UK announcement, an additional £1.2 billion of funding was allocated to Scotland under the Barnett formula and a range of subsequent announcements were made by the Scottish Government on 8th March as part of agreeing a budget deal with the Green Party.
- 4.3 Following the Scottish Budget, the Scottish Government released their policy document “Housing to 2040”, which has a number of longer term budget implications.

5. Key issues and conclusions

Extension of the Coronavirus Job Retention Scheme

- 5.1 The Budget confirmed an extension of the Coronavirus Job Retention Scheme (“CJRS”) more commonly known as the ‘Furlough Scheme’, for a further six months until September 2021. For the self-employed, the UK Government has also provided additional grant funding under the Self Employment Income Support Scheme (“SEISS”), capped at £7,500 per quarter for the next 6 months.
- 5.2 These measures provide some short term mitigation to the risks of unemployment increasing, but we will remain in close contact with our customers who we know to be furloughed or who have lost their jobs, to understand their financial situation and provide support where necessary. We continue to make conservative budget provision for increasing rent arrears in the context of the risks associated with the end of furlough.

Universal Credit and Working Tax Credit

- 5.3 The UK Government increased Universal Credit, Working Tax Credits and expanded Statutory Sick Pay at the beginning of the pandemic. The standard rate of Universal Credit was increased by £20 per week for an initial one-year period from 6 April 2020 which provided up to £1,040 for claimants during the year. The 2021 Budget announced that this would continue for a further 6 months. The increase has been an important part of supporting our UC customers and we will continue to lobby DWP to make this permanent.
- 5.4 The UK Government also announced a one-off payment of £500 to new and existing Working Tax Credit recipients, which will provide additional income support over the next six months.

Taxation

- 5.5 VAT is the most significant tax for us, since we are generally unable to reclaim this. No changes were made to VAT which would materially impact on our activities.
- 5.6 On corporation tax, the UK Government will increase the rate of corporation tax paid by businesses from 19% to 25%. This change will come into effect in April 2023 when, it is assumed, Covid-19 restrictions on trading and the economy will no longer be required.

- 5.7 While the Group's RSLs and charitable entities are exempt from paying corporation tax, this measure is of particular importance to Lowther Homes, which as a non-charitable, profit generating commercial entity is the only subsidiary in the Group projected to carry a corporation tax liability. From April 2023 corporation tax will be charged at 25% of profits after Lowther's planned gift aid payment to the Foundation. Over the first 5 years of the financial projections, Lowther will incur an additional £0.3m of corporation tax. This would have a direct impact on the level of Lowther's retained profits reducing them over the first five years from £5.7m to £5.4m. This may have some impact on its ability to provide gift aid to the Wheatley Foundation.

UK funding support

- 5.8 The UK budget stated that a £4.8 billion UK-wide Levelling Up Fund would be delivered, and local areas would be able to submit bids for the first round of funding starting in 21-22. This fund, as well as the previously announced UK Shared Prosperity Fund, involve the UK Government taking a role in directly funding Scottish projects, without a role for the Scottish Government.

Scottish Government Budget 2021/22

- 5.9 The Scottish Government budget and subsequent announcements provide for a total of £831.6m government grant on delivering new build affordable housing in Scotland in 2021/22, compared to the £843m allocation for the current financial year.
- 5.10 This funding is in the context of the Scottish Government's announcement that it will invest £3.5 billion in the Affordable Housing Supply Programme over five years if re-elected in May, and seek to deliver 100,000 homes by 2032.
- 5.11 Other funding announced for 2021/22 includes £81.6m for regeneration programmes, including £5m to regenerate Scotland's vacant and derelict land, and £150m for fuel poverty and energy efficiency measures. The detail of these funds and application processes is not yet clear, although we expect the majority to be administered via local authorities.
- 5.12 The Scottish budget included £15 million to establish the Apprenticeship Employer Grant and £30million to support the continuation of Foundation and Graduate Apprenticeships in Scotland. We will follow up on any opportunities to access this funding to support our apprenticeship programmes.
- 5.13 The application of the Barnett formula provides each of the devolved administrations with a share of UK central government funding to be allocated according to its own priorities. The UK Government Budget included an additional £2.4 billion to the devolved administrations through the Barnett formula, with the Scottish Government receiving £1.2 billion extra.
- 5.14 The Scottish Government announced a range of measures with this funding, including Pandemic Support Payments of £130 to households receiving Council Tax Reduction and two payments of £100 to families of children qualifying for free school meals. This augments the Scottish Child Payment discussed at the last Board meeting.

6. Value for money implications

6.1 No implications.

7. Impact on financial projections

7.1 The changes set out above do not materially change the assumptions in the financial projections considered by the Board at its last meeting.

8. Legal, regulatory and charitable implications

8.1 No implications.

9. Equalities impact

9.1 Not applicable.

10. Recommendation

10.1 The Board is requested to note the contents of this paper.

Report

To: Wheatley Housing Group Board

By: Steven Henderson, Group Director of Finance

Approved by: Martin Armstrong, Group Chief Executive

Subject: Group Network and Voice Services Contract Award

Date of Meeting: 29 March 2021

1. Purpose

1.1 The purpose of this report is to seek approval to award a new group wide contract for the provision of voice, data and network services to Virgin Media Business Ltd for a period of three years with the option to extend for a further year.

2. Authorising context

2.1 Under the Scheme of Financial Delegation (SoFD), and the Intra Group Agreement set out in the Group Standing Orders, the award of contracts is based on the financial value over the life of the contract. Under the Scheme, Group Board approval is required for contracts relating to revenue expenditure in excess of £1,000,000

2.2 The value of this contract is anticipated to be in the region of £1,900,000 (excluding VAT) based on the existing expenditure profile and forecast spend across voice, data and network services. The duration of the contract will be for a period of 3 years, with an option to extend for a further year. Group Board approval will therefore also be required.

3. Risk Appetite and assessment

3.1 Our agreed risk appetite in laws, regulations and covenant compliance is averse. This level of risk tolerance is defined as “minimum tolerance for any decisions that could lead to external scrutiny”.

3.2 Our agreed risk appetite in technology delivery is open. This level of risk is defined as “appetite to take decisions with potential to expose us to additional scrutiny but only when appropriate steps have been taken to minimise any exposure”.

- 3.3 A comprehensive assessment of risks associated with developing a Group approach to this contract was undertaken as part of its development. The main risks identified and how they will be mitigated are:

Risk	Mitigated by
Planned changes to Group network and voice services (through rapid changes to office and wider estate)	<ul style="list-style-type: none"> ▪ The contract has been specifically designed with commercial terms to allow per annum reductions/changes on services provisioned, whilst retaining fixed pricing across the contract for deployed and implemented services
Future network technology options available to Group	<ul style="list-style-type: none"> ▪ Services available across the contract include traditional WAN/data services and cellular/wireless services such as 5G/mobile broadband
Value for money	<ul style="list-style-type: none"> ▪ Fixed operating and profit margin to ensure cost controls for the duration of the contract ▪ Avoidance of service migration costs, through maintaining incumbent provider

4. Background

- 4.1 Voice, Data and Local Area Network (“LAN”) maintenance services are critical elements of our Group technology service delivery, providing phone and IT network service access across all staff, customers and partners of Group.
- 4.2 In the context of our 2021-26 strategy, we require flexibility in these services to adapt to a number of factors:
- The ability to bring DGHP and any future partners onto the same systems and networks as the rest of the Group
 - Significant changes to our existing office estate, with large scale changes to, and closures of, sites across Group
 - New technology, such as the data service technologies provided (including remote access, temporary connectivity installations, new cellular/5G service growth expectations)
 - Ongoing changes to business services delivered across Group due to homeworking and a rapidly evolving digital customer contact approach
- 4.3 Our provider for the last 12 years has been Virgin Media Business Ltd (VMB). VMB are a large UK technology supplier for Call Centre voice services and wider call handling of over 1M calls per annum; office, branch and data-centre data services across 180 locations; partner data connectivity and Internet-access connectivity.
- 4.4 Additionally, VMB provide LAN maintenance services (including 24 hour break-fix equipment replacement services for all Group network equipment), technical design input to network solutions, 24 hour on-site support for VMB equipment and services, and in-house site delivery, installation and operational service support.
- 4.5 As the existing five-year contract is due to expire, we have reviewed our options to deliver our service needs while remaining compliant with procurement legislation.

5. Discussion

5.1 Two options were identified as shown in the table below.

Option	Action	Pros	Cons
Option 1	Tender – either via full open market competition, or via a mini-competition from a pre-procured public sector framework	<ul style="list-style-type: none"> ▪ Would test the market and may return more competitive price 	<ul style="list-style-type: none"> ▪ If incumbent supplier is not retained there would be additional costs and complexity of service migrations projected at £500k-£750k in year 1 ▪ Limited value returned based on service migration costs ▪ Significant diversion of IT resource from current priority projects associated with new strategy
Option 2	Direct Award via Crown Commercial Services Network Services 2 Framework Agreement (RM3808)	<ul style="list-style-type: none"> ▪ Time effective and cost efficient compared to open tender ▪ Allows for direct negotiations with supplier on commercial element ▪ Significant cost avoidance (>[redacted]) due to the continuity of services provided 	<ul style="list-style-type: none"> ▪ Would not fully test the market, however as this contract relies heavily on published service rates the margins for competition are slim.

5.2 A direct award under option 2 to VMB Ltd, the incumbent, is the preferred option for the following reasons:

- They have good knowledge of site-specific requirements across the group, including complex data services, call centre voice services and data centre requirements specific to Group
- Satisfaction levels in relation to their services across the group is high with the provision of highly available and resilient network, voice and data services nationally
- Provide value for money across services delivered (see para 5.7 below)
- Service continuity is provided via the ongoing provision of critical services, whilst removing the costs and complexity required to migrate to new service providers
- Community Benefits and Wheatley Pledge commitments across previous contract engagements and the proposed contract to include VMB staff providing customer awareness and training outcomes across Digital learning (safe online usage, email, web browsing), use of devices (smart-phones/tablets, laptops)

- 5.3 The new contract will improve existing service delivery KPIs: providing a renewed focus on Order Management SLAs for new services, a formal Customer Support Plan for incidents/problem management alongside response/resolve SLAs for all services. The overall value of services will be maintained through the discounted contract rates and ensure access to new connectivity technologies including support for temporary connectivity for home and short term work arrangements (e.g. Care contracts, partner site working).
- 5.4 The Group's corporate estate will be reduced in the coming years and the contract will allow for this flexibility to reduce our contracted commitments to established sites and the associated costs per annum by removing the penalties for site terminations processed within the contract.
- 5.5 Overall Voice Service and Data Service discounts have been maintained across the proposed 2021-2024 contract term, with greater termination flexibility and shorter contract duration overall. These service costs are at an agreed list price discount of [redacted]% for data services and [redacted]% for LAN maintenance. Additional value is provided by avoiding the costs and service delivery risks of migrating all services to a new provider: these costs are estimated to be approximately £500k (comprising 33% year 1 parallel running costs on connections and services; full year LAN maintenance fees; installation costs for provider equipment and line installations across all sites; engineering costs for 2 FTE across a 3 month site survey and 9 months of installation services delivery).
- 5.6 Expenditure, excluding DGHP, across the contracted services for the period 2021-24 is forecast as follows:

Year	LAN Maintenance	Voice Services	Data Services	Total
2021-22	£151k	£63k	£426k	£640k
2022-23	£157k	£63k	£426k	£646k
2023-24	£159k	£63k	£426k	£648k

- 5.7 The financial projections for 21/22 and beyond include provision of £1.06M per annum for Voice, Data and LAN services; the services provisioned within the 2021-24 VMB contract can be met from this allocation without any additional funding requirements and is expected to be £30k per annum below business plan assumptions.
- 5.8 The Group VMB contract spend estimate does not currently include DGHP voice/network service costs, however the contract will be extended to include all DGHP voice, data and LAN services following completion of the DGHP Integration Project. DGHP has a separate budget which would cover the assumed transition to the Group contract provision.

6. Key issues and conclusions

- 6.1 Voice, Data and LAN maintenance services are critical elements of all Group technology service delivery providing 24 hour/365 day access to digital services, voice platforms, internet and web applications to all Group staff and customers.

6.2 It is of benefit to the Group to continue our established relationship with VMB Ltd as the supplier of these services to Group and to secure the ongoing provision of these services with enhanced contracting terms aligned to business strategy.

6.3 The recommended approach is a direct award to VMB Ltd via the Crown Commercial Services Network Services 2 Framework Agreement (RM3808) across Lots 1 (Data Services), Lot 2 (LAN Maintenance) and Lot 3 (Voice services).

7. Value for money implications

7.1 The Crown Commercial Services Network Services 2 Framework Agreement (RM3808) operates with a fixed pricing mechanism held for the duration of the contract. This allows the group to ensure that the suppliers pricing remain fixed for the duration of the contract, whilst enhanced flexibility within the contract terms will support office closures and estate changes and allow in-contract savings; this allows the group to demonstrate value for money.

8. Impact on financial projections

8.1 As noted in paras 5.6-5.8 above.

8.2 We have agreed a schedule of rates for all services delivered across Lots 1, 2 and 3, this will allow the group full control of spend in this area, with enhanced terms for connection terminations in support of planned estate changes and office closures.

9. Legal, regulatory and charitable implications

9.1 VMB Ltd will be procured through a fully compliant OJEU framework in line with all relevant legislation. The risk of a procurement challenge is considered low.

10. Partnership implications

10.1 This contract will be created as a service for all group subsidiaries. The service has the potential to scale to the needs of future growth, with enhanced termination rights to support office closures and site terminations. This contract offers a future proofed service to both existing and any new partners within Wheatley Group, demonstrating the value of economies of scale and leverage from a large and growing group.

11. Implementation and deployment

11.1 The incumbent supplier will remain as the service provider, therefore there will be minimal implementation and deployment required. DGHP network, data and voice services will be implemented through the DGHP Integration project (due to complete January 2022). The on-going contract management will be led by Group IT Network and Voice team.

12. Equalities impact

12.1 There are no equalities impacts to be noted.

13. Recommendations

13.1 The Board is asked to:

- 1) Agree, subject to Board approval, the award of the Group contract for the Provision of Voice, Data and Network Services to VMB Ltd (Company Number: 01785381) for a period of 3 years with an option to extend at Group discretion for a further period of 12 months