



WHEATLEY HOUSING GROUP LIMITED

BOARD MEETING

Thursday 7 October 2021, 14.00

Board Room, Wheatley House

AGENDA

1. Apologies for Absence
2. Declarations of Interest
3. Minute of meeting held on 29 September 2021 and matters arising
4. Construction Material Shortages and Future Supply Issues:
- *Professor Sean Smith, Chair of Future Construction, School of Engineering,
University of Edinburgh (presentation)*
5. Treasury update
6. AOCB

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: 7 October 2021

1. Purpose

- 1.1 This report recaps our borrowing arrangements and seeks the Board's approval for a number of changes to these, as well as our new sustainable finance framework.

2. Authorising and strategic context

- 2.1 Under the Group Standing Orders the Group Board is responsible for approving the Group's funding strategy.
- 2.2 Our 2021-26 strategy contains an ambition to deliver 5,500 new build homes. Around half of the funding to deliver a social rented home comes from borrowing, with the other half from Scottish Government grant.
- 2.3 Our loan agreements currently limit the level of borrowing we can undertake via a "debt per unit" limit of £27,000. This limit is not sufficient to allow us to deliver our new build target. For that reason, it was agreed by the Board that a key strategic project for this year should be the renegotiation of these agreements to create the necessary borrowing capacity to deliver our strategic target.

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 The Board approves our key financial policies ("Golden Rules") annually, along with the business plan update in February. These help us mitigate the risk of having insufficient cash to fund our activities. Our liquidity Golden Rule requires us to have sufficient cash and available facilities to support our requirements for at least the next two years. We have significant cash at present, and liquidity risk is low, but our £[redacted] Revolving Credit Facility ("RCF") with [redacted] will expire in November 2023. We have therefore sought terms from lenders to refinance this facility, and these are set out in this paper.

4. Background

- 4.1 Our borrowing arrangements have grown in scale and complexity in recent years. Maintaining a diverse set of funding sources and strong investor relationships is a key part of our strategy, while seeking to minimise complexity and related risks.

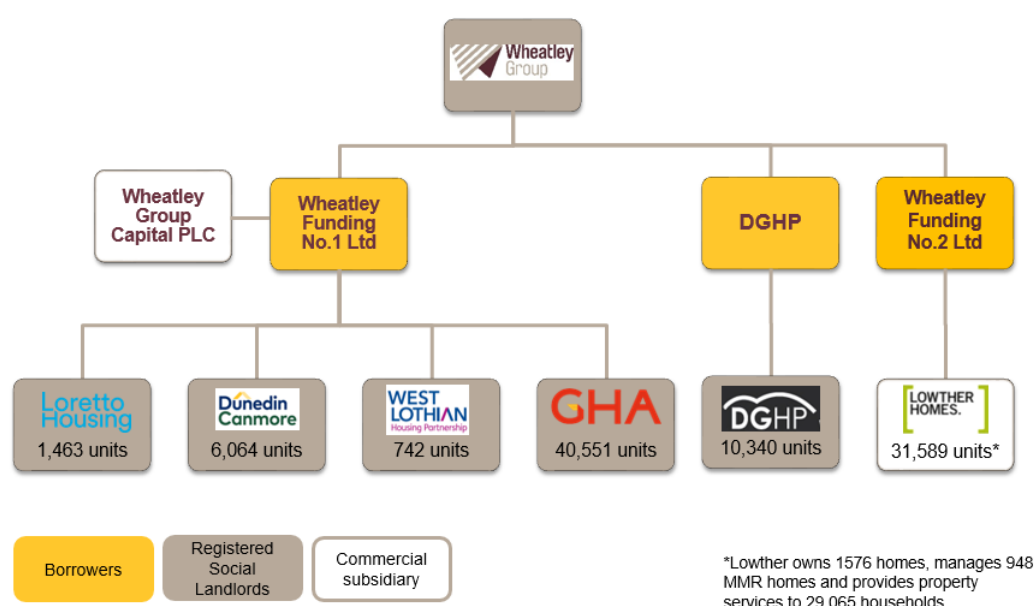
5. Customer engagement

- 5.1 Not directly applicable as not related to customer service.

6. Discussion

(i) Summary of Wheatley Housing Group funding arrangements

- 6.1 We borrow money from banks and investors principally through three entities in the Group, shown in the diagram below in yellow.



Wheatley Funding No.1 Limited RSL Borrower Group		Dumfries & Galloway Housing Partnership		Wheatley Funding No.2 Limited Lowther Homes Limited	
Debt facilities (drawn)	£1.262bn	Debt facilities (drawn)	£189m	Debt facilities (drawn)	£76.5m
Debt facilities (undrawn)	£0.251bn	Debt facilities (undrawn)	£35m	Debt facilities (undrawn)	£0.0m
Total fixed assets	£2.118bn	Total fixed assets	£419m	Total asset values	£143.5m
Turnover	£0.297bn	Turnover	£49m	Turnover	£18.2m

- 6.2 The most significant borrower is Wheatley Funding No.1 Ltd (“WFL1”), the treasury vehicle which funds our RSL borrower group of GHA, Dunedin Canmore, Loretto and WLHP (previously included Barony and Cube). The proceeds of our 2014 £300m public bond issue were on-lent to WFL1, which in turn on-lent these to the RSLs. DGHP is separately funded as is Lowther Homes, which borrows through Wheatley Funding No.2 Ltd (“WFL2”). A full description of the arrangements is set out in Appendix 1.

- 6.3 While we benefit from diverse sources of funding, there are multiple types of facilities, lenders, covenants and reporting requirements across the three funding vehicles. We are keen to consolidate DGHP's funding arrangements into the RSL Borrower Group in due course to simplify the reporting requirements and to fully integrate DGHP into the larger funding vehicle. This will create two funding groups; one for all Wheatley RSLs, secured against all social housing assets, and the other for the commercial activities of the Group.

(ii) Sustainable Finance Framework

- 6.4 Finance providers are increasingly focused on the Environmental, Social and Governance ("ESG") impacts of their investment, as well as the return generated. Investors require external accreditation or measurement of the positive environmental and/or social impacts to ensure borrowers are not just 'green-washing' or otherwise exaggerating their impacts on society or the climate.
- 6.5 For a social housing provider with the mission to provide 'Better Homes and Better Lives', we are well-placed to demonstrate the impact of our work.
- 6.6 However, to satisfy investors, we are required to align our objectives within a finance framework, where we can demonstrate compliance with various guidelines for green bonds, social bonds and sustainable bonds (sustainable being a mixture of green and social). The draft of this document is included in Appendix 2 (a glossy version will be prepared prior to publication). We are further required to have external verification of our framework via a Second Party Opinion ("SPO") provider. We selected Standard & Poor's ("S&P") to be our SPO provider.
- 6.7 [redacted]
- 6.8 Any future funding drawn down under this framework will 'link' the funding directly to these areas of investment such as provision of affordable homes (social), investment in energy efficiency improvements (environmental), homes for the homeless or other vulnerable populations (social), new build (environmental) and so on.
- 6.9 While we do not anticipate issuing any funding under this framework in the next 2/3 years as we are well-funded, we have now completed the groundwork and can refresh this document ahead of any future financing activity.

[paragraphs 6.10 – 6.32 redacted]

7. Digital transformation alignment

- 7.1 No direct impact on the digital transformation programme.

8. Financial and value for money implications

- 8.1 [redacted]
- 8.2 Detailed business plan information has been prepared to reflect the various amendments and refinancing activity for the RSL Borrower Group, including DGHP.

8.3 [redacted]

9. Legal, regulatory and charitable implications

9.1 Our banking and property lawyers, Pinsent Masons, are engaged to assist with the LIBOR transition amendments, the WFL1 refinancing and related security charging work and the SNIB discussions.

9.2 We do not require approval for debt facilities from the Scottish Housing Regulator, although they are aware of our proposed plans for the development programme and the resultant requirement to increase our financial capacity and there are no charitable implications.

10. Equalities implications

10.1 Not applicable.

11. Environmental and sustainability implications

11.1 Our proposed Sustainability Framework will directly link our environmental, social and governance activities and outcomes to our financing activity, allowing our existing and our future lenders, banks, private placement investors and bondholders to be assured that their investments are supporting a green recovery and meaningful social impacts.

11.3 The Sustainability Framework will cross-reference our 5-year strategy, Your Home, Your Community, Your Future, including the green objectives, social impact outcomes and governance commitments throughout. While it is unlikely that we would be able to achieve a material reduction in our cost of funding as a consequence of issuing ESG-linked debt, it is anticipated that, in the absence of a Sustainability Framework, our cost of future debt will be higher. In addition, an accredited Sustainability Framework will widen the potential pool of investors as has been seen by recent oversubscribed bond issuance from various RPs (Notting Hill Genesis; Paradigm Housing; Beyond Housing; PA Housing).

12. Recommendations

12.1 The Board is requested to:

- 1) **note** the summary of the Group Borrowing arrangements
- 2) **approve** the sustainable finance framework and the S&P second party opinion
[recommendations 3 – 6 redacted]
- 6) **agree** that all changes to loan documentation will be brought to the Board for final approval prior to execution

LIST OF APPENDICES

[Appendices 1 – 4 redacted]