DUMFRIES & GALLOWAY HOUSING PARTNERSHIP
BOARD MEETING
Wednesday 30th March 2022

AGENDA

1. Apologies for Absence

2. Declarations of Interest

3. a) Minute of meeting on 9 February 2022 and matters arising
   b) Action list

4. Managing Director Update (Verbal)

Main Business Items

5. Home Safe building compliance update

6. Energy costs: supporting our customers

7. *A New Deal for Tenants* – draft Rented Sector Strategy consultation

8. Governance update

Other Business Items

9. New operating model and office update (+presentation)

10. a) 2022/2023 Budget
    b) Financial performance to 28 February 2022

11. Gender Pay Gap (Presentation)

12. AOCB

Post meeting stock tour

Report

To:	**DGHP Board**
By:	**Lorna McCubbin, Head of Investment and Compliance**
Approved by:	**Frank McCafferty, Group Director Assets and Repairs**
Subject:	**Home Safe building compliance update**
Date of Meeting:	**30 March 2022**

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1. Purpose

1.1 This report provides an update to the Board on our building compliance work streams following the remobilisation of our work streams post pandemic.

2. Authorising and strategic context

2.1 Under the Group Authorise/Manage/Monitor matrix, the Board is responsible for the on-going monitoring and scrutiny of our compliance with relevant legislation and regulation. This report provides the Board with an operational update and details of compliance works that are undertaken and ongoing activities

2.2 In line with our group Strategy Your Home, Your Voice we will maintain our commitment to "make the most of our homes and assets". We will ensure through our home safety compliance programmes that we protect and maintain our assets.

3. Background

3.1 Our compliance works programmes includes gas servicing, TMVs, water management including legionella prevention and electrical works such as electrical inspections and smoke and heat detector re-life's.

3.2 Landlords have a legal duty to repair and maintain gas pipework, flues and appliances in a safe condition, to ensure an annual gas safety check on each appliance and flue, and to keep a record of each safety check.

3.3 Landlords also have obligations under legislation or approved codes of practice for a variety of building maintenance and inspection activities related to firefighting equipment, lifting equipment, alarm systems etc.

3.4 Landlords also have a responsibility for electrical safety including carrying out Electrical Inspections, commonly referred to as EICR or FIT testing.

3.5 The status of our other compliance work programmes is shown in the table below.

Work Stream	Cycle	Status
TMV maintenance and Installation	Annual	Rolling programme ongoing since remobilisation
Smoke and Heat Detector re-life programme	Every 10 years but is dictated *annually* by build date / LD2 install date	Rolling annual programme
Electrical (EICR)	Every 5 years	Rolling annual programme
Lift Insurance Inspections	Six monthly	Rolling programme continued through the pandemic

3.6 Key Objectives for compliance work:

- To increase customer safety within their homes by undertaking both statutory and good practice compliance activities;
- Increasing access levels for our JV partners (City Building), internal IHR teams and other specialist contractors;
- Package up home safety visits where practical and minimise number of visits to decrease inconvenience to the customer while enhancing value for money and productivity; and
- Increase visibility of compliance works with frontline staff.

3.7 When any of our properties are vacant we will use the opportunity to carry out compliance activities when identified. The purpose of the void compliance works is to ensure that customers receive a home which is safe and secure for them to live in, while also maximising the access opportunity for us to undertake as much cyclical or capital compliance works as possible while the property is vacant.

4. Discussion

Gas Safety

4.1 The measures to reduce the spread of COVID-19 in the early phases of lockdown had a significant adverse impact on our gas safety performance. Historically, we had 100% gas safety compliance. Achieving this compliance requires an annual inspection of every property with gas. We have 8,288 homes on the gas servicing contract.

4.2 Since the 4th September 2020, we recovered its historical performance position and returned to zero failed CP12s and 100% compliance with Scottish Housing Regulator Annual Return on the Charter (“SHR ARC”) performance indicators. We have maintained zero CP12 fails since reaching that level in September.

4.3 In addition to the formal appointment letters our new repairs system issues reminder text messages to customers on the day the appointment is booked and the night before the scheduled appointment.

4.4 Only as a last resort after we have exhausted all reasonable efforts to obtain access do we move to a forced appointment, to guarantee we maintain compliance and ensure the safety of our tenants.

Water Management

4.5 Legionella testing is part of our overall water management strategy and is a year round programme.

4.6 Our testing regime varies on a site by site basis taking into consideration the water system installed, the type of property and the customer demographic. Works can include visual inspections of the tanks, risk assessments, temperature checks of both the water inlet and of resting water within the tank, bacterial testing which checks the water supply for various bacteria including e-coli and legionella and chemical testing for metal and mineral contents to ensure that water meets the relevant water quality standards as set by the Water Supply (Water Quality) (Scotland) Regulations 2001.

4.7 The table below provides details of progress against the annual programme.

Subsidiary	Inspections completed so far	Total Inspections/Assessments Required	Percentage completion
DGHP	182	182	100%

TMV Servicing

4.8 The table below provides the total number of our households within this programme.

Business Area	Qualifying Households
DGHP	1126

4.9 Our TMV programme is a rolling annual programme, and includes potentially vulnerable customer groups within qualifying households (e.g. those containing under 5s or over 75s and also some Care sites). The qualifying households are reviewed annually.

Smoke and Heat Detectors

4.10 We commenced our programme in May 2019 to install upgraded smoke and heat detectors in our homes. The programme was fully completed in February 2022 before the Scottish Government deadline of the 31St March 2022. All customers were offered several appointments to enable the works to be completed at a time suitably convenient for them. Only as a last resort did we move to a forced appointment, ensuring we achieved 100% by the deadline.

Periodic Electrical Testing (EICR)

4.11 In May 2020 the Scottish Government updated its guidance to social landlords via the Scottish Housing Quality Standards (SHQS), requiring that periodic electrical inspections be undertaken in all properties on a cycle of no more than 5 years. This brought the social housing sector in line with guidance issued to the private rented sector in 2015. The relevant Part of the new SHQS guidance “recommends” that outstanding electrical inspections “should be done by the end of March 2022. Landlords must make “reasonable efforts” to ensure that homes are accessed to carry out the inspection.

4.12 The periodic electrical inspection is undertaken in customers' homes when we have been installing the new smoke and heat detector systems, to minimise disruption to customers. Periodic inspections will continue to be undertaken at this appointment as part of a compliance "one and done" approach wherever it is practically possible.

4.13 The table below shows our current position with obtaining access to carry out the electrical inspection, which takes two hours to complete, the property must have credit in the electricity meter and clear access to power outlets in all rooms.

	Stock	EICR Total Outstanding	Percentage completion
DGHP	10,291	36	99.65%

4.14 The electrical installations at the remaining 36 properties have been inspected by Saltire. It was identified at this first inspection that remedial works are required before a satisfactory EICR can be evidenced. These works are programmed to be carried out during March 2022.

Lift Inspections and Maintenance

4.15 Lift inspections by our insurance engineers commenced as normal throughout the pandemic and lockdown and any time related defects that were identified were actioned by our lift contractors as a priority. Any minor defects or recommendations have also now been completed since we remobilised back in April 2021.

4.16 Proactive servicing of our lifts is carried out monthly via our approved Insurance company (HSB).

4.17 All emergency callouts are being dealt with within timescales and there is continued dialogue with the contractor about any potential issues.

Management and Delivery

4.18 Our Compliance Team will continue to provide day-to-day management of our compliance work programmes including all project management functions, supporting our Customer First Centre model with customer communication and provide all performance, financial monitoring and reporting. The team's approach will ensure we continue to provide a robust landlord assurance function, maintaining our compliance.

5. Customer engagement

5.1 Our experience through the COVID-19 pandemic highlighted the value of proactively engaging our customers, and emphasising the importance of our compliance work programmes through our annual "Stay Safe" Messaging. (See appendix 1). We will continue to develop our approach to working with our customers to deliver our compliance activities in the new operating model, utilising the size and scale of our new Customer First Centre to engage our customers and work with our Contractors to improve overall access rates.

5.2 We will further strengthen communications with customers at each stage to explain:

- what we are doing and why it's important;
- how we will ensure the work can be carried out safely;
- what we need them to do; and
- how they can get in touch to talk to us.

5.3 Key messages in all our communications to customers on compliance will be:

- The safety of our customers and staff is our top priority and as a result we will continue to follow all recommended best practices on PPE;
- Compliance activities are essential work aimed at keeping you and your home safe; and
- Develop positive messaging to improve the profile of compliance activities so that our customers see them as "value works".

5.4 These key messages, supplemented where appropriate with detail of the individual project or work being carried out, will be communicated to customers using a range of channels including telephone calls, on-line, web and social media.

6. Environmental and sustainability implications

6.1 There are no direct environmental and sustainability implications associated with this report.

6.2 However our approach to carry out associated compliance works in one visit will as a result lead to fewer travel visits by engineers and trade staff across our assets.

7. Digital transformation alignment

7.1 We will look to align our compliance activities work programmes with our digital transformation strategy. Giving customers more choice over appointment timeframes and offering a digital self-serve method for the customer arrange compliance works in their homes.

8. Financial and value for money implications

8.1 There are no direct value for money implications arising from this report.

8.2 Budgets for these work streams have already been agreed and improved as part of the 5-year plan already approved by the Board.

9. Legal, regulatory and charitable implications

9.1 In considering the current legal implications, the organisation will respond to any changes to regulations from the Scottish Government and SHR as and when they may arise.

9.2 The amendments to the Scottish Housing Quality Standards in relation to Periodic Electrical inspections required us to increase our electrical inspection programme from a 10 year to a 5-year cycle to work towards the recommended target date of the 31st March 2022.

10. Risk appetite and assessment

10.1 The organisation’s risk appetite relating to building compliance work streams is minimal” i.e. preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward.

10..2 Risks relating to repairs and maintenance are set out in our Housing risk register. In addition, some compliance activities, for example gas servicing, are embedded in the Scottish Housing Regulator’s reporting requirements.

11. Equalities implications

11.1 There are no equalities implications associated with this report.

12. Key issues and conclusions

12.1 We completed all essential compliance activities throughout the pandemic and lockdown, keeping our homes and customers safe.

12.2 We will continue to develop our approach to maximising access for compliance works.

12.3 We will continue to offer a “one and done” approach where possible for similar related compliance activities subject to asset cycles, property attributes and customer requirements.

12.4 We will ensure we remain agile and alert to any changing legislation or best practice to maintain our commitment to providing a robust level of landlord assurance across the various compliance activities.

13. Recommendation

13.1 The Board are asked to note the content of this report and agree the proposed approach to compliance related works.

List of Appendices

Appendix 1 – Stay safe campaign

Appendix 1 – Stay safe campaign

Report

To:	**DGHP Board**
By:	**Alan Glasgow, Managing Director**
Approved by:	**Steven Henderson, Group Director of Finance**
Subject:	**Energy costs: supporting our customers**
Date of Meeting:	**30 March 2022**

1. Purpose

1.1 This report updates the Board on the steps we are taking to support our customers with increasing energy costs.

2. Authorising and strategic context

2.1 The financial measures noted in this report are budgeted within the business plan financial projections separately on the Board agenda. Supporting our customers with the cost of running their homes is a key objective in our 2021-26 strategy.

3. Background

3.1 The UK has limits on how much suppliers are able to charge consumers for energy, known as the price cap. Energy price caps are reviewed by the government's regulator, Ofgem, every six months. Following price rises in October 2021, energy costs for customers are due to again increase from 1 April.

3.2 The increase on 1 April will see households on standard tariffs pay an average of £693 more per year – with bills rising from £1,277 to £1,971 per year, while prepayment customers will see an average increase of £708 - from £1,309 to £2,017.

3.3 Wholesale natural gas prices have been rising for a number of reasons, including low inventories as economies re-open post-Covid, and Russia tightening its gas supply to the rest of Europe. The UK has been heavily impacted due to its reliance on gas as an energy source, with 85% of UK domestic heating being gas-based.

3.4 Since the start of the pandemic, we have supported customers facing hardship through a range of initiatives, these include our emergency response fund, EatWell programme and a number of fuel top-up schemes, including our Energy Crisis Fund, for which we have claimed £1.75m in support from Ofgem to date.

4. Discussion

4.1 Given the current position regarding the cost of energy, our Fuel Advice Team will play two key roles. Firstly, we will help advise and guide customers through the array of different funds and sources of support recently announced by the UK and Scottish Governments. While these are welcome, they are likely to be confusing for customers to navigate.

4.2 Utility companies are currently not offering any new tariffs due to the ongoing situation regarding energy prices, meaning our customers are unable to move to a more affordable tariff at this time. However, the Fuel Advice team are continuing to deliver a bespoke energy advice service to our customers and we have seen a recent increase in demand for our service and in the number of customers requiring our support. The valuable service continues to deliver great outcomes for our customers, as this quote from our customer, Sandra, regarding the home heating support fund shows, 'it has helped me a lot, a huge weight has been lifted off my mind. I wouldn't have known what to do as it was very complex. I'm also getting a smart meter fitted now.'

4.3 Secondly, we have accessed or are developing other support mechanisms for our customers. These are set out below:

(i) While we will continue to access funds on a local and national basis on behalf of customers, we have also considered how we can concentrate our resources to help customers given the acute nature of the situation. We have therefore brought together £1m under Wheatley Foundation through the Helping Hand Funds and former GHA Better Lives Fund which will be used as a single pot to support customers in urgent need of assistance. This fund will be available for our frontline staff, including in the Customer First Centre, to access on behalf of customers, and may cover food, fuel and other forms of emergency assistance. This is on top of the £200,000 budget allocated next year for food support through our EatWell programme, also run by the Wheatley Foundation.

(ii) To augment the Wheatley Foundation's funds, our Fuel Advice team along with Housing Officers and other colleagues across Group have been supporting customers who have prepayment meters through our Energy Crisis Fund. We have to date successfully secured £1.75m in grant funding from Ofgem, of which £410k remains. We have also just had confirmed our bid for a further £500k has been successful, taking the total to £2.25m. We can begin to allocate this money from the end of this month onwards. The Energy Crisis Fund supports customers by providing a maximum of three awards of £49 by voucher that they can credit to their pre-payment meter. We can also potentially use this funding to arrange the reconnection of gas where it has been shut off by the supplier due to overdue charges (at the same time updating the CP12).

(iii) The Fuel Advice team have also been supporting customers to apply to Scottish Power and SSE who have their own hardship funds which are only available to their customers specifically, as well as British Gas who has a fund that is opened to customers of any energy supplier. Each of these individual funds have differing eligibility criteria and some are only open for a short period of time.

(iv) We are at the early stages of a partnership agreement with The Wise Group to support customers who have credit meters with a one-off payment of £150 which would be paid directly to the energy supplier on behalf of our customers, and we are proposing a pilot of this approach in GHA South. We also have a number of customers who have self-disconnected because of the standing charge or have had their gas meters disconnected due to debt. The team are working in partnership with colleagues in City Building to develop a potential approach to support these customers to address the debt and have their meters reconnected to the energy supply.

4.4 In addition to our own initiatives and sources of direct support for customers, the UK and Scottish Governments have announced a number of mitigation measures.

4.5 The UK Government has:

- Proposed a scheme whereby all residential electricity customers would receive a £200 discount on their electricity bills from October, which will later be repaid in £40 instalments over five years; and
- Stated it will expand the *Warm Home Discount Scheme* to cover three million households. It offers low income households a one-off annual discount on their electricity bill, and was worth £140 in 2021/22.

4.6 The Scottish Government has been allocated £290m of extra funding under the Barnett formula following the UK measures, and has allocated it as follows:

- £280m to provide £150 to every household in receipt of Council Tax Reduction in any Band and to provide £150 to all other occupied households in Bands A to D. This means 1.85 million households across Scotland, or 73% of all households, will receive financial support through their council tax bill or a direct payment. The proportion of our customers benefitting is likely to be higher than this; and
- £10m in 2022-23 to continue the Fuel Insecurity Fund to help households from rationing their energy use.

4.7 In December 2021, the Scottish Government launched a consultation on proposals to introduce a new Scottish benefit to replace the current Cold Weather Payment scheme in Scotland from winter 2022. The proposed new benefit, *Low Income Winter Heating Assistance*, would give the 400,000 low income households currently eligible for Cold Weather Payments a £50 payment every year. This will be an investment of around £20 million each year to support people towards the costs of heating their homes in winter no matter what the weather or temperature. The current requirement is for temperatures to be recorded or forecasted at below zero degrees Celsius for seven days in a row in order to trigger a £25 payment.

4.8 Also in December, the Scottish Government launched a £4m Home Heating Support Fund, administered by Advice Direct Scotland. Our Fuel Advice team have been granted access to this fund as Trusted Referral Partners, allowing us to submit applications on behalf of our customers who are in fuel debt, experiencing financial hardship or are self-rationing their energy use. The fund seeks to provide financial relief to energy consumers who are experiencing significant financial hardship and strives to provide this support to households regardless of the fuel or payment method used. The grant will pay up to a maximum of £1,000 per household and closes on 31st March 2022. The fund is open to users of prepayment and credit meters, district heating networks and unregulated fuels. Since the fund opened in January 2022, our Fuel Advice team have been submitting applications for our customers, with 25 successful applications to date and a total of £20,180 paid into these customers' utility accounts.

5. Customer engagement

5.1 Discussed further below.

6. Environmental and sustainability implications

6.1 Our housing stock generally performs well from an energy efficiency perspective, and we continue to install energy efficiency measures in line with our strategy.

7. Digital transformation alignment

7.1 There are no digital transformation implications associated with this report.

8. Financial and value for money implications

8.1 The proposals in this report can be funded within existing budgets as set out in our business plan projections; there are no new financial implications.

9. Legal, regulatory and charitable implications

9.1 Not applicable.

10. Risk appetite and assessment

10.1 The rising cost of energy presents a number of risks; it will see customers face increasing financial hardship, which in turn could impact on their ability to pay rent. While we maintain conservative provisions for rent arrears in our business plan, it is also important that we take direct action to support our customers where they face acute issues of fuel poverty.

11. Equalities implications

11.1 There are no further equalities implications associated with this report.

12. Key issues and conclusions

12.1 Rising energy costs will have a material impact on the cost of a home for our customers. Our strategy focusses on reducing the cost of a home in several areas, including maximising the energy efficient of their homes, providing advice to customers and supporting to access to better tariffs or financial support.

12.2 This report sets out how we are seeking to support customers within the context of the significant energy market cost increases.

13. Recommendation

13.1 The Board are asked to note the measures we are taking to support customers facing hardship due to the energy crisis.

DGHP

Report

To:	**DGHP Board**
By:	**Alan Glasgow, Managing Director**
Approved by:	**Steven Henderson, Group Director of Finance**
Subject:	***A New Deal for Tenants* – draft Rented Sector Strategy consultation**
Date of Meeting:	**30 March 2022**

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1. Purpose

1.1 This report summarises the Scottish Government's recently published draft strategy for the rented sector in Scotland, *A New Deal for Tenants*, and outlines potential implications arising from the proposals it contains; and

1.2 Seeks the Board's views on the draft strategy to inform the Group's overall response to the consultation exercise.

2. Authorising and strategic context

2.1 The Scottish Government's draft strategy for the rented sector has Group-wide implications including for the delivery of the Group's strategy, *Your Home, Your Community, Your Future*.

3. Background

3.1 When the Scottish Government published Housing to 2040, the country's first long term housing strategy, it signalled its intention to publish a new Rented Sector Strategy to set out how it would achieve improved accessibility, affordability and standards across the rented sector.

3.2 The draft strategy – *A New Deal for Tenants* – was subsequently published on 20 December 2021.[1] The government is now consulting on the draft with the aim of having the final strategy in place by the end of 2022 and bringing forward housing legislation to implement key aspects of it in 2023.

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[1] https://www.gov.scot/binaries/content/documents/govscot/publications/consultation-paper/2021/12/new-deal-tenants-draft-strategy-consultation-paper/documents/new-deal-tenants-draft-strategy-consultation-paper/new-deal-tenants-draft-strategy-consultation-paper/govscot%3Adocument/new-deal-tenants-draft-strategy-consultation-paper.pdf?forceDownload=true

3.3 The draft strategy is one of the first outputs from the cooperation agreement between the Scottish Government and the Scottish Green Party, and reflective of the concerns of the latter, it has a strong focus on enhancing tenants' rights across all rented sectors, including the social and private rented sector (PRS). Some areas of the strategy such as supply and access to affordable housing are relatively undeveloped or, in the case of pushing up quality standards, reference other policy initiatives already underway.

3.4 The Scottish Government is seeking responses to the draft strategy by 15 April 2022.

4. Discussion

4.1 The draft strategy document aims to take a whole rented sector approach to "*ensure all tenants, whether living in private or social rented homes, can access secure, stable tenancies, with affordable choices – whilst also benefiting from good quality homes and professional levels of services and rights*."

4.2 By 2025, through the proposals in the draft strategy, the Government intends to deliver:

- Enhanced rights for tenants;
- New requirements for data collection on rents in the private sector;
- New cross-tenure housing standards;
- A new private rented sector Regulator; and
- Legislation to underpin a new effective system of rent controls.

4.3 The draft strategy is clear that the private rented sector is behind the social rented sector in many of the areas where the Government wants to see progress, and therefore the weight of policy proposals being consulted on are for that sector with implications for the Group drawn out in the discussion of each part of the draft strategy below.

4.4 The tables that follow for each chapter of the draft strategy summarise the key proposals along with considerations for the different parts of the Group's, as well as how we already deliver against the various proposals, key elements for our response to the consultation.

A New Deal for Tenants

Key Proposals	*Considerations for Wheatley Group*
Ensuring tenant's voices are heard with an equalities led approach	
Establishing a **PRS Tenant Participation Panel** to inform the development and implementation of national policy.	We would welcome any opportunities for tenants to be involved in shaping the development and implementation of national private rented sector policy. The Group is committed to ensuring that customers voices are heard, and that they co-create services with us, and therefore we support any developments which also allow tenants to shape the policy environment for those services.
Consider the role of **tenant unions** in tenant participation and influencing decision-making	We welcome feedback from all relevant organisations. However, increasingly we find that this is more robust and more representative when sought in a whole range of ways. These include instant feedback, digital engagement and detailed

processes and policies.	input on specific items. Younger people and those from protected characteristic groups tend to be more inclined to become involved through these mechanisms rather than in a more traditional and long-term forum. Landlords of any tenure should be encouraged to develop strong tenant engagement, which can involve individuals from a robust cross-section of their customer base. If landlords consistently engage customers across all aspects of service development, allowing them to lead in the direction of travel, we will steadily build up the customer voice so that tenants are a powerful influence locally and nationally. This is likely to create more diverse and representative feedback to add to that from formal organisations. There is a role for regulators in assuring this engagement process.
Deliver a national **awareness raising campaign** of tenant's rights and how to exercise them in 2022.	At the point of let we talk to tenants about their rights, and information is available through our websites where we also direct customers to independent advice through Citizen's Advice Scotland and Shelter. We would welcome any campaign to increase tenants understanding of their rights, especially with regards the new Private Rental Tenancy which offers tenants more security than previously, helping to make this a more viable housing choice for many households wary of the PRS sector.
Consider how best **advocacy and advice** can be offered to PRS tenants seeking to access the First-tier Tribunal (FTT).	We understand the value of high quality, independent advice and advocacy for tenants delivered by trusted sources such as Shelter and the Citizen's Advice Bureaux and would support any development of this or similar provision should the Scottish Government make funding available.
Further develop Regional Networks to represent diversity in the sector.	Our Strategy commits us to ensuring that our services and approach are led by our customers, representing all parts of society. We have recently undertaken a range of work as part of the development of the New Scots Action Plan and will take a similar approach as we implement the homelessness policy. We know from experience that it can be difficult to ensure that all protected characteristics are represented. Regional Networks would be welcome as an additional mechanism to hear from customers but should not replace the work of each landlord.

Enhancing rights within the existing tenancy framework	
Tenancy Deposit Schemes – use **unclaimed deposits** to improve and benefit the private sector.	We remind all tenants to reclaim any unused deposits from the scheme we use. Analysis has shown unclaimed deposits is not a big issue for our PRS tenants. However, we would welcome the recycling of unclaimed deposits after an appropriate time to support PRS tenants access to advice and support.
Consider reforms to the current **grounds for repossession** under the Private Residential Tenancy (PRT).	The PRT has been in place since 2017 and is now the main form of tenancy for Lowther's tenants. There are 18 grounds for eviction which are a mix of mandatory, where the FTT would have to grant an eviction order if all the requirements were met, and discretionary, where the FTT could consider wider factors. All grounds have been discretionary under emergency Covid legislation and are due to remain so until March 2022. Scottish Government has already sought views on making this change permanent in line with the social rented sector. From our experience the current grounds work well. We are comfortable with the requirements on landlords seeking evictions under the grounds, and welcome the introduction of pre-action protocols as discussed below.
Revise pre action protocols in the social rented sector to take account of Universal Credit and the impacts of domestic abuse.	Pre-action requirements work well in Wheatley by codifying the actions we already undertake. Court and eviction action are only undertaken as a very last resort. We provide thorough support to help tenants to pay their rent or resolve their behaviour and as a result very few cases go to court. We have already modified our approach to the initial 5 week wait arrears which result in Universal Credit cases and allow these to be paid back incrementally. Additional proposals to support those experiencing domestic abuse are also welcomed. It is important that victims can stay in their existing home where they feel it is appropriate to do so as it can help to maintain existing support networks.
Introduce **pre-action protocols** when considering issuing notices of eviction for arrears permanently for PRS tenancies.	During the pandemic when the requirement to use pre-action protocols was put in place, Lowther drew on the established model already used by our RSLs. This has worked well in helping to structure engagement with tenants around arrears prior to issuing a Notice, so we welcome the proposal to make these permanent for the PRS sector. Pre-action requirements work well for the Group – they codify the actions that we were already taking for tenants. Court and eviction action are only undertaken as a very last resort. Our thorough approach to ensuring tenants are supported to pay

	their rent or resolve their behaviour means that very few cases go to court and even less are evicted. This extensive approach is easier for larger RSLs and it is recognised that it would be difficult to replicate in full for small private landlords. However, a standard pre-action protocol as implemented by Lowther would be welcomed as it should have a beneficial effect on preventing homelessness. The national aim to end homelessness can only be achieved through supporting at-risk households well before they become homeless. This will allow them to transition to a new home without the trauma of temporary accommodation. Supporting private rented sector tenants in this situation will require teams with the skills to address their particular issues – for example mediation, advocacy and legal services. These are very different from those found in traditional homelessness and housing options teams.
Review legislation to tackle **commercial sexual exploitation** and consider as part of a wider package of support housing measures to support women to exit.	We would welcome a review of the terms "immoral purposes" and "brothel keeping" within the model SST. The language currently used is outdated and should instead be focussed on criminality and disturbance to communities. The review must balance the need to avoid harm to individuals with the potential impact on the wider community. It should take account of the potential for managed moves where community relationships have broken down in order to avoid eviction but allow people to start afresh. Commercial Sexual Exploitation (CSE) is a form of Violence Against Women and it is important that all sectors within housing understand and appreciate this and that the appropriate level of support is given to those affected, including access to safe and suitable forms of accommodation. The Group has developed specialist training to enhance the knowledge and understanding of our staff in this area and this will shortly be rolled out across our wider frontline staffing teams to ensure anyone impacted is able to access the right support at the right time.
Ensure a **joint tenant** can end interest in a PRS tenancy. And joint tenants who experience **domestic abuse** can remain in the family homes as the sole tenant.	We would welcome improvements to how PRS sector joint tenants can end tenancies to equalise practices with the social rented sector. However, we would recommend that longer notice periods may be advisable to give tenants time to save for the deposit or make plans if the rent and deposit is no longer affordable.

Introduce a ground that enables private landlords to apply to the FTT to transfer a tenancy to enable a survivor of domestic abuse to remain in the family home as sole tenant.	We would welcome grounds that support domestic abuse survivors to remain in their homes as a sole tenant. Allowing private rented sector tenants to end a joint tenancy may also assist in avoiding a greater crisis. Victims of domestic abuse should have the option to remain in their existing home where they feel it is appropriate to do. The Group offers a wide range of support including risk assessment and safety planning, access to safe and secure home/personal safety referrals, attendance at multi-agency forums to take a collective approach towards targeted action planning and established partnership working with statutory and non-statutory agencies. Women are known to be most disadvantaged by domestic abuse and, as they often assume the role of primary caregiver, remaining within the community where children attend education, existing GPs surgeries etc is of real importance to their support structure.
Amend the **PRS rent adjudication** process so Rent Officers or FTT can only agree a proposed rent increase or lower it.	As required whenever we increase PRS rents for sitting tenants, we inform them of their right to apply to a Rent Officer if they disagree with the rent increase. Removing the fear that the Officer could increase the rent is likely to lead to more applications, however, as our PRS partner Lowther's annual rent setting exercise is based on market data and rents are set within the Local Housing Allowance for MMR homes, information which the Rent Officer also looks at, our rent increases can be justified and unlikely to be challenged.
Greater flexibility to personalise a rented home	
Potentially creating a right to keep **pets** in the PRS and Social Rented Sector.	Generally, across both our RSLs and Lowther we recognise the importance of pets and the impact they can have on wellbeing. However, out of consideration for neighbours the new right should allow for restrictions in numbers and in some other limited circumstances – for example in social housing, to allow decisions to be taken on a project basis in specialist and supported housing.
Amend the Private Housing (Tenancies) Scotland Act to allow people to personalise their home by internal **decoration**.	We allow our Lowther tenants to personalise their home taking into account the extent and cost of returning it to a lettable state, for example tenants can put up pictures and can change the wall colour although we would expect them to return the property to a neutral colour at the end of the tenancy or at their cost, but they would not be allowed to change the flooring because of the cost of replacing or rectifying any damage to carpets. Any reforms would need to be specific about the extent of personalisation allowed without explicit landlord consent. One consequence may be that

	landlords look for a higher deposit at the start of the tenancy up to the maximum of 2 months rent to cover additional costs in returning flats to a lettable state and this could create an affordability barrier for some lower income tenants.
Reform of the eviction process	
Introduce measures that **prevent evictions over the 'winter period'** to give tenants more time to access support and alternative accommodation when subject to a notice to leave or notice of proceedings One way of achieving this could be by introducing a requirement on the FTT/Sheriff Court to consider delaying enforcement of an eviction order during winter except where there is ASB or criminal behaviour	The 'winter period' is undefined and the strategy does not provide a detailed justification for preventing evictions at this time, other than saying that particularly during the festive period it can be hard to find support and alternative accommodation due to less properties being available, disruption to services due to staff holidays or increased costs such as utilities. Most notice to leave periods are 3 or 6 months, the only exceptions to this being 28 days for grounds relating to a relevant criminal conviction or ASB or an abandonment. Giving longer to leave under these circumstances could have wider implications for neighbouring tenants. For other grounds at least 3 months would be reasonable for tenants to find alternatives throughout the winter season. It also can take a month from an eviction order being granted to paperwork being processed for Sherriff Officers to carry out an eviction. As the difficulties identified for tenants in the draft strategy seem to be most acute over the 2-week Christmas period it would indicate that any 'ban' on winter evictions should be limited only to this period of winter. In our social rented tenancies, we already stop issuing NOPs, booking cases to court or carrying out evictions from mid-December to the beginning of January. However, this does mean rent arrears continue to accrue and extending this period for any longer means tenants have more debt to clear. Often, servicing the notice prompts engagement which has not been forthcoming despite our support at earlier stages. Any restriction on evictions means that costs to landlords from any additional unpaid rent through this period could increase. The draft strategy does not address this impact - presumably expecting landlords to absorb this cost. The unintended consequence of a winter eviction ban will be landlords timing action to avoid it, leading to notices and higher demand on courts before and after the winter period. Where this is not possible and evictions are due to unpaid rent, the financial cost of extra time in the tenancy during the ban period is unlikely to be recovered from the outgoing tenant therefore we would welcome additional

	financial support measures for tenants through this period that would cover unpaid rent. The draft strategy suggests local authorities could offer income maximisation advice to prevent winter evictions. As part of a range of support for tenants we already offer income maximisation advice to prevent eviction for arrears, however, it is often the case that by the time a case has reached the FTT/Courts income maximisation will not address the accumulated arrears so while useful, it is unlikely this would prevent or even delay eviction or cover the additional unpaid rent owed to the landlord. Financial support to tenants, similar to the Tenant Hardship Grant Fund could allow more effective engagement with RSLs and private landlords not having to take the whole burden of ongoing arrears and reduce the stress of the situation for tenants. However, this would require an additional financial resource not currently available to RSLs or private landlords. Ideally, there would be a national approach to how this was delivered as the approach to Tenant Hardship Grant has varied by local authority.
Rent Guarantor Schemes	
Potentially developing a **rent guarantor scheme(s)** to support key groups to access the PRS.	Lowther's letting policy sets out that we would not usually accept guarantors except where in exceptional circumstances, for example, this is the prospective tenant's first tenancy and they are not able to provide any landlord references or income history. Lowther would welcome rent guarantor schemes where it would help key groups to access housing, for example, young people or people leaving care environments to access the sector. We feel this should also be broadened to deposit guarantee schemes in response to the points from MMR tenants earlier in the draft strategy that saving up a deposit can be a barrier to accessing or moving within the sector. Unclaimed deposit monies may be a potential source of funding for this.

4.5 It is notable that the strategy is largely silent on **increasing access to affordable housing**, especially around the growing mid-market rent part of the private rented sector. Each provider will have their own approach to marketing and allocation as well as letting criteria, and there is limited understanding amongst prospective tenants about MMR and how to access these affordable homes. For example, there is no single place for customers to find these homes and Local Authority websites with links to MMR providers are often out of date, requiring prospective tenants to approach each provider and navigate different letting criteria and processes.

4.6 Considering the significant investment by the Scottish Government and RSLs in MMR as a tenure, we would welcome a discussion on how the MMR sector can deliver better outcomes for low income households by increasing the visibility of and ease of access to this high quality affordable housing product. For example:

- A clearer 'brand' for MMR that enables potential customers to understand the benefits and security of this tenure, accompanied by a national public awareness campaign;
- A common platform to market MMR homes;
- A review of the use of deposits in the MMR sector and the reach of deposit guarantee schemes;
- An understanding of the role it plays in reality in preventing homelessness; and
- Standardisation in letting processes and criteria for MMR homes.

Affordable Rents

Key Proposals	*Considerations for Wheatley Group*
Develop a **shared understanding of affordability** - views are being sought on the most important factors to be considered in developing that understanding, and also how such an understanding could be used and evaluated.	A shared understanding of affordability would usefully build on existing work in this area, including the detailed review Scottish Government published in 2019 which we and others already use to inform our guideline of social rents being within 35% of household income. Similarly, the SHFA affordability tool, extensively used in the sector, is the product of detailed research and input from a variety of bodies and works well as a broad indication of affordability. The factors that influence affordability will vary significantly across the country but it would be useful to have a tenant informed view which will give greater understanding. This should include all aspects of affordability e.g. heating and potential commuting costs as well as rent, and would be very useful in informing decisions and consultation for RSLs. However, the social sector rent consultation directly with tenants should remain the key determinant of rent increases. Tenants in each RSL need to consider the balance of services, quality of homes and cost of living. This cannot be determined by a one size fits all approach. Rents, although just one part of housing costs, in the MMR sector are pegged to Local Housing Allowance and the Scottish Government's Broad Market Rental Area data as the proxy for affordability. Lowther's letting policy, which is in line with other providers in the MMR sector, assesses affordability by looking at a prospective tenant's ability to sustain the rent and other key housing and living costs, where as a rule of thumb rent should be no more than 35% of income. MMR letting criteria includes an income banding of £21 – 40k/pa, as this income can sustain MMR rents

	up to 100% of the local housing allowance for the areas we operate in. A shared understanding of affordability could be used to refine and standardise letting criteria and affordability assessments by MMR providers to improve accessibility for low income households.
Mandate the need for PRS landlords to provide a range of **rental data and other property information** - to support future rent control policies – provisions to be included in the Housing Bill. Scottish Government is proposing to make available rent and property information for all properties including rents paid by previous tenants.	The exact data to be collected has not been determined and needs further expert input but a sample list is provided in the draft strategy Lowther already provides rent data annually for our full and MMR homes to the Scottish Government in the format they request it and would be happy to provide future data. The issue of data accuracy and keeping it up to date will be challenging for the sector as whilst sitting tenant rents can only change once a year, rents can change significantly at re-let to reflect market conditions. This can mean tenants in similar properties in the same block or street paying different rents depending on when the property is let. Publishing this data may lead to more challenges to Rent Officers, however, we would be confident that rents can be justified with reference to the local market and the quality of our product.
Views are sought on the proposed vision for **national rent controls** for the PRS sector aimed at tackling poverty and improving outcomes for low income families. Views are also sought on the principles of national rent controls: - Give local authorities mechanisms to introduce local measures - Be evidence based - Encourage PRS to improve the quality of properties - Learn from processes already in place for social sector tenants	Rent control for MMR homes is already in place through the grant regime which should be recognised in any approach to national rent controls. Further, any control system must recognise that to provide high-quality landlord services, such as repairs, we face cost inflation, and therefore controls cannot be lower than relevant indices such as CPI or building cost indexes in order that services to tenants are not negatively impacted. The underlying principles would indicate that the Scottish Government may introduce tenant consultation around rent increases in the PRS sector. Reflecting that rent setting in the private sector is market driven to ensure that rents are competitive, Lowther does not apply a single rent increase across our diverse portfolio. The practicalities of tenant consultation on rent increases specific to a single street or block would need to be worked through if this was to be proposed, so as to ensure it provides value and benefit to tenants. We agree that there is no need for a rent control approach in the social sector. It is vital that these are set at an organisational level determined by tenant engagement. The existing safeguards through the

- Seek to give tenants a stronger voice. National rent controls for the PRS only.	Scottish Housing Regulator ensure that this engagement is appropriate.

Supply of Rented Homes

4.7 This section has no proposals, instead it recognises a number of challenges in increasing supply and asks for views on a number of questions set out below.

Key questions	*Considerations for Wheatley Group*
Beyond the routes already available to deliver **MMR** homes how could new **additional investment** in this be supported?	The delivery of an MMR programme across the East and West has been successful in recent years, giving a route to increase numbers of affordable homes being delivered and creating balanced, mixed communities. MMR delivery is hampered in some areas such as Dumfries and Galloway as a result of the Local Housing Allowance levels. However, private sector finance appetite to invest in Scottish affordable housing sector via the existing model of senior, secured debt is significant with debt priced relatively cheaply given the strong support from Scottish Government grant funding. However, introducing different types of funding (mezzanine and/or equity) into the model is somewhat limited given the rate of return required for these investors is higher and future income streams on MMR are limited by rent increases, tied to Local Housing Allowance. Similarly, if PRS is subject to rent controls it will act as a deterrent to private sector finance as returns to investors will be constrained. The new Scottish National Investment Bank (SNIB) has a potential role to play here, meeting a gap in supply to provide either mezzanine or equity funding, or potentially a ‘whole-ticket’ approach (including senior debt), priced to reflect the low risk of default in the sector and the sustainable outcomes for the people of Scotland (access to affordable housing, increase of supply of new energy-efficient homes, creation and support of 20-minute neighbourhoods, regeneration of brown sites etc.).
What measures can be put in place to encourage **build to rent** (BTR) in Scotland?	Purpose built BTR has seen some growth in Scotland in recent years. Unlike south of the border, house market factors (including lower

	average house price purchase pricing), mean that the economic viability of PBBTR is very challenging and can often only work in housing markets areas that are very strong in Scotland. Competition for land in such markets is consequentially very high making the investment case for PBBTR on a financial rate of return basis, very challenging when set again open market sale competitors. The majority of BTR investors work UK-wide and consider investments using a rate of return model, with assumptions of rent increases over a 25/30-year timeframe. Scotland may be put at a competitive disadvantage in the event that rent controls are introduced here, but not in the rest of the UK. Also there is a current pipeline of 9,000 new homes in the BTR sector. Should this expand, there may be a risk to MMR demand in some market areas. Given this, demand reports will need to be carefully considered.
Is the approach to allocations achieving the right balance between supporting existing social tenants and those seeking a home within the sector	The ambition to end homelessness means that a significant proportion of social stock must be used to achieve that aim. The current shortfall in supply means that this comes at the cost of less ability to help others in need. There are particular challenges in meeting the needs of those who require larger or accessible homes. Changing the approach to allocations is unlikely to achieve a significant difference until the balance of supply is changed

Quality-Raising Standards

Key Proposals	*Considerations for Wheatley Group*
A review of existing **registration regimes in the PRS sector** to identify lessons and ways to strengthen them to drive up standards. Also a suggestion there could be new fines for landlords and letting agents who fail to comply with requirements in relation to property adverts, and expanding the scope of penalties that local authorities can issue to landlords.	Our commercial entity, Lowther, is both a registered landlord and letting agent. Both sets of registrations require to be renewed every 3 years but whilst the key fit person tests are consistent, the systems are different with local authorities administering the former and the Scottish Government the latter. Lowther will be introducing an annual self-assurance statement for review by its Board, following the model currently required of social landlords, that will set out requirements including those in the Letting Agent Code of Practice, and compliance with those as well as continuous improvement actions.

Intention to consult on **a new housing standard**, to be published in 2023 and legislated for in 2024/25 with phased implementation from 2025 to 2030. This will incorporate the energy efficiency standards set out in the Heat in Buildings Strategy.	There are already extensive cost implications from the EESSH2 requirement in the social sector, estimated to cost tenants across the sector £2 billion through their rents. Any new standard needs to be accompanied by sufficient funding and to consider the impact on affordability for tenants if rents have to increase to fund the necessary investment. The current grant fund for Net Zero Social Housing is a welcome start but we would strongly welcome removal or reduction of the need for 50% match funding which acts as a barrier to bidding. The ongoing investment in our RSL stock, the age of Lowther's PRS properties and planned investment in our portfolio should position us well to meet any new housing standard. However, there could be financial implications for the Group from the housing standard depending on the precise requirements, particularly around minimum space and digital connectivity and particularly if these are implemented for existing stock. For example, if studio flats are not regarded as meeting the space standard funding would be required to adapt or demolish these. This would also reduce supply. The requirement around energy efficiency in Heat in Building Strategy is welcome, as is the commitment to put legislation in place given our commitment to the energy efficiency of our properties
Introduce regulations in 2025 requiring all **PRS to reach EPC C** as a minimum where technically feasible and cost-effective at change of tenancy, and for all properties by 2028.	Lowther's investment approach is already focused around achieving EPC C for the small number of properties not currently achieving it and we project this target should be achievable by the proposed deadline.
Legislate to require the installation of **zero or new zero emission heating** in existing buildings, and all buildings to meet this standard by 2045.	The Group is committed to playing our part in achieving net-zero and recognise the importance of zero emission heating in achieving this. Detailed consideration will be need on the cost implication of changing existing systems and the best way for Government to support required change. Wider consideration such as the rate of adoption of new technologies, such as hydrogen based fuel, will also have an impact on implementation.

Fundamental review of the **adaptations system**	A full review of adaptations is required. The current system is deeply unfair to tenants who have to self-fund adaptations now that limited allowances made in the transfer business plan settlements from 20 years ago have been exhausted, whilst other social rent tenants do not. There should be an equal national system that is fair to all tenants and provides the higher funding levels that the SFHA has consistently argued for. The system at present is fragmented and difficult for customers. It can often delay discharge from hospital and/or exacerbate health issues. The direct funding of adaptations to RSLs continues to work well allowing a streamlined approach for our tenants to receive what they need. However, across the country adaptations are considered through a different route from aids and equipment even though the same people will often require both. The pressure on our health and care services, together with the ageing population mean it is vital to get this process right going forward. Adaptations (either for individuals or on a more widely planned basis) will be the main mechanism to make our existing stock more accessible. The resource allocation to adaptations needs to be significantly altered given the ageing profile of our population, the existing demand for adapted homes and the need to be able to move people out of hospital more rapidly. If we are to meet these needs much of the work needs to be done in existing stock. All our landlords have a strong approach to working with tenants and other stakeholders to facilitate adaptations and welcome any review however that review needs to look at funding as a key enabler of a more effective adaptations system.
Cross-sector regulation through setting out clear outcomes and standards that landlords in both the private and social sectors would be assessed against, for example implementing a Charter for the PRS sector. Views are sought	The Group has a well-established approach to meeting and exceeding regulatory requirements as set out in the Charter for our RSLs. However, any increase in regulation on the PRS sector will mean higher management costs and this will need to be factored into

on a vision of a tenure-neutral outcomes for tenants in both sectors, and underlying principles that focus on: - **Setting up a PRS regulator** building on experience of SHR - **PRS regulation based on defined standards** for quality, affordability and fairness - Being evidence based but taking account of stakeholders views and value for money - Be reflection of the draft strategy's ambitions	Lowther's business plan and our appraisal of future MMR growth opportunities.

<u>Implications</u>

4.8 Looking across the range of proposals in the draft strategy many of the proposals will have no or relatively low impact, especially for our RSLs. The draft strategy presents some opportunities to support more vulnerable groups such as tenants who are survivors of domestic abuse, and ensure tenants are aware of their rights which we would welcome. However, there are a number of areas where the implications for the Group could be more significant:

- A new housing standard is likely to have significant cost implications as we have already seen with EESSH2, and with inadequate Government funding it will put pressure on rents across the social and private rental sectors impacting services and affordability for households on low incomes counter to the aims of the draft strategy.
- A ban on winter evictions looks to be likely, and depending on the definition of 'winter' that is adopted, the additional rent arrears accrued could be significant. Our mitigation will be to re-profile our arrears and legal actions to reduce this impact.
- The cumulative impact of the proposals in the PRS sector – increased regulation, new requirements to provide data, national rent controls, a new housing standard, changes to how evictions are handled by the courts – will increase management costs for Lowther's PRS portfolio whilst limiting ability to recover that through rents. We will need to take this into account in the rate of return we use when we appraise future MMR growth opportunities. We will also need to review our existing FMR portfolio which is older stock on which the majority of Lowther's investment programme is focused, some of which has not performed well in recent years.
- Increased pre action protocols in the private sector should help to prevent homelessness. However, this will only be the case if a targeted approach is adopted to help households find alternative accommodation – largely remaining in the private rented sector. If this is not well planned there is potential for an increase in the number of households coming through the homelessness route and being referred to our RSLs for accommodation.

4.9 The Scottish Government draft rented sector strategy contains a range of proposals to deliver on its ambition to improve access, affordability and quality across the rented sector. There is a strong focus on levelling up the PRS which has a bigger distance to travel as a sector as a whole, although there is considerable variation across it which is not well acknowledged in the proposals and discussion.

5. Customer engagement

5.1 As part of the development of the Group's response to the consultation document we have discussed the proposals with our Tenant Scrutiny Panel. They agreed with our draft response and also asked that some further points be made to the Scottish Government. These were:

- Emphasizing that existing RSL rent consultation processes work well and that there cannot be a one size fits all approach;
- That rent control in the private rented sector should balance the risks of affordability for customers and viability to private landlords, bearing in mind that if this balance is not right the pressure is likely to fall on social housing;
- Placing an increased focus on bringing empty homes back into use as quickly as possible in all sectors;
- Supporting the desire for high quality housing but emphasizing that this must not come at the expense of affordability;
- Support increased engagement amongst customers but be aware that not everyone can use or wishes to use digital engagement approaches – ensure there are routes of engagement which suit all customers; and
- To express concern at the prospect of Tenant Unions – the panel expressed concern that the phrase "union" had a particular and political meaning in Scotland which might discourage participation. They also noted that there are in fact a few tenant unions in existence, some of which have links to existing trades unions and they felt that this link might not be helpful.

6. Environmental and sustainability implications

6.1 There are no new implications identified at this time.

7. Digital transformation alignment

7.1 There are no implications identified for our digital transformation alignment arising from the draft strategy consultation document and its proposals.

8. Financial and value for money implications

8.1 There are no implications identified at this time, however, there a number of areas which may have future implications, such as meeting increased regulatory requirements, which will be assessed when more detail is available.

9. Legal, regulatory and charitable implications

9.1 The draft strategy sets out a number of areas where further legislation will be developed, the implications of which are discussed above.

10. Risk appetite and assessment

10.1 Our agreed risk appetite in relation to changes in policy is cautious. This level of risk tolerance is defined as "p*reference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward*".

10.2 Through discussion of the draft strategy and a comprehensive response to the consultation, as well as our networks with key stakeholders and relationship with the Scottish Government we would aim to inform policy arising from the strategy and its implementation, and effectively plan to mitigate negative impacts as far as possible, whilst maximising the opportunities it creates to deliver better outcomes for our customers.

11. Equalities implications

11.1 There are no implications for identified at this time.

12. Key issues and conclusions

12.1 The draft strategy – *a New Deal for Tenants* has a strong focus on enhancing tenants' rights across all sectors, including the social and private rented sector (PRS).

12.2 We have a strong organisational ethos which fits with the key elements of the strategy. We have also identified a number of areas where the strategy would benefit from being more clearly codified, such as supply and housing access. Our response will seek to highlight those areas for further consideration.

13. Recommendation

13.1 The Board is asked to consider and discuss the draft proposals set out in a *New Deal for Tenants,* to inform the Group's response to the Scottish Government's consultation exercise.

Report

To: **DGHP Board**

By: **Anthony Allison, Director of Governance**

Approved by: **Steven Henderson, Group Director of Finance**

Subject: **Governance update**

Date of Meeting: **30 March 2022**

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1. Purpose

1.1 To update the Board on, seeking approval where appropriate, on the following governance related matters:

- recruitment of a tenant Board member;
- Chair's urgent action;
- Strategic governance review implementation update; and
- [redacted]

2. Authorising and strategic context

2.1 Under the Group Standing Orders, the Group Board is responsible for the Group's overall governance arrangements. The Recruitment, Appointment, Appraisal and Governance ("RAAG") committee supports the Board in this role.

2.2 The Board were updated on the implementation plan for the Group strategic governance review at the last meeting.

2.3 The Board is responsible for the identification and selection of tenant Board members. Under the terms of our Articles of Association, the Parent approval is required for any appointments or reappointments.

3. Background

3.1 The Board agreed that we commence recruitment for a tenant Board member to fill the current vacancy on the Board, ensuring that we exceed the regulatory requirement of 7 members on the Board.

3.2 The Board approved the transfer of ownership of DGHP3, the tax efficient development subsidiary from DGHP to Wheatley Housing Group, at its November meeting. This process is now advanced and will take effect on 1 April 2022, with DGHP joining the RSL borrower group arrangements.

3.3 In terms of the ongoing strategic governance review, it was noted that a number of recommendations are in progress that the Board would continue to be updated on implementation.

3.4 The Board has previously agreed our proposals to remove duplication in the Group by using Lowther Homes as the sole vehicle for factoring, commercial, full and mid-market rent.

4. Discussion

<u>Tenant Board member recruitment</u>

4.1 The Board agreed previously that we should prioritise the recruitment of a tenant Board member, to fill the vacant position on the Board.

4.2 A number of engagement events have taken place across Dumfries and Galloway, both online and in person. These events provided prospective candidates an opportunity to find out more about the role.

4.3 The Chair, together with the Governance Business Partner met with a prospective candidate, Mr Hugh Martin on 10 March 2022. Mr Martin has been a tenant of DGHP for a number of years. He resides in Thornhill where he is actively involved in his local community. He was previously involved with DGHP on the District Management Committee, albeit for a short period before those Committees were disbanded.

4.4 Mr Martin indicated that he is keen to join this Board and would welcome any opportunity for induction, training and development. Based on the meeting, the Chair is of the view that Mr Martin has suitable skills, experience and a good knowledge of the local community.

4.5 The Chair agreed to recommend to the Board that Mr Martin be appointed as a tenant Board member. In terms of our Articles of Association, the Board is required to formally appoint Mr Martin for an initial term of three years. The Board are asked to agree to formally appoint Mr Martin as a tenant board member. Subject to Board approval, it is intended that Mr Martin would attend the Board meeting in May.

<u>Chair's urgent action</u>

4.6 The Board agreed in February to transition DGHP3 to the new development company and to implement the new arrangements for development governance. The Board agreed to transfer the shares in DGHP3 Ltd to Wheatley Housing Group Limited.

4.7 At the February meeting, the Board were provided with a copy of the new Articles of Association for the new development company. It was envisaged at that time that the new Articles of Association would be adopted by the new Board after the transfer of the DGHP3 shares. Since then, our funders have indicated that adopting the new Articles as soon as possible would accelerate the process of diligence.

4.8 In order to achieve this, we, (as the sole member) of DGHP3 was required to pass a resolution adopting the Articles of Association in advance of the share transfer.

4.9 In terms of the powers to agree urgent actions, having regard to the potential benefits of accelerating funder agreement and that the Articles had not materially changed since they were last presented to the Board, the Chair agreed to approve a resolution for DGHP3 to adopt the Articles on our behalf (as the sole member) on 10 March 2022. The Board is asked to note the Chair's urgent action.

4.10 The Board will note that the new development governance arrangements will take effect on 1st April 2022. The key dates and timelines for the new arrangements are set out below:

Action	Date
Transfer of shares to WHG	1 April
Formal Wheatley Developments Board to agree further name change	1 April
Retiral of the current DGHP3 board and appointment of the current members of the Group development committee	1 April
Pass resolution to change name	1 April
First business meeting (governance aspects)	1 April
Full business meeting of the new Company	12 May

<u>Strategic governance review implementation</u>

Board Terms of Reference/reporting and escalation

4.11 As part of the strategic governance review, it was agreed that we develop specific Terms of Reference ("ToR") for each Board. The ToR will consolidate what is already documented in our existing governance framework as well as document the route and parameters for this Board, and the Boards of our sister organisations, escalating issues to the Group Board.

4.12 We recognise there is value in the process of developing new ToR as an opportunity for each Board to refresh their understanding of their specific roles and responsibilities. In our context, it formally documents the Board's role in the Group context.

4.13 The draft ToR are attached at Appendix 1. The ToR are structured to set out clearly what requires Board approval, and is as such reserved to this Board, and other responsibilities of the Board in terms of ongoing scrutiny such as financial and business performance.

4.14 The ToR incorporate a section that explicitly document the arrangements for reporting and escalating any matters to the Group Board. This was also a recommendation from the strategic governance review.

4.15 Board feedback is sought on the draft ToR, which will supersede the existing Group Authorising Framework and Group Authorise, Manage, Monitor Matrix sections of the Group Standing Orders. Subject to Board feedback, the ToR will be recommended to the Group Board for formal adoption as part of the Group Standing Orders at its next meeting.

Board diversity

4.16 The Group Board considered at its workshop on 9 March how we understand diversity in a Board context based on recommendations from the Group RAAG Committee. At present, our recruitment and succession planning takes into account diversity of skills and experience and gender.

4.17 In order to inform how we understand diversity in a Board context, we commissioned Campbell Tickell to make suggestions on the factors the Board may wish to take into account in defining diversity. These included a combination of factors that can be readily quantified, such as age, disability, gender and ethnicity, and more subjective areas such as interpersonal and communication style.

4.18 Alongside this, we considered what we would be able to tangibly measure and compare with other organisations. Housemark, a data and insight company for the UK housing sector, is now publishing Environmental, Social and Governance data. This includes information on Board demographics (age, gender, disability and ethnicity) as well as other areas of interest such as Board tenure and structure. As Housemark collect this data on an ongoing basis and has a wide membership in the sector across the UK, it can provide us with a reliable comparator.

4.19 Taking into account the above the Group Board considered what diversity markers would be appropriate for all Boards across the Group to consider as part of their recruitment and succession planning. It was agreed that we should focus on the following diversity indicators:

- Skills and experience (via our agreed Board skills matrix);
- Gender;
- Age;
- Ethnicity;
- Disability; and
- socio economic (based on National Statistics Socio-economic Classification criteria).

4.20 It was also agreed that we may in future broaden the diversity indicators as part of a phase 2.

4.21 It is therefore intended that as part of our annual review of our rolling 3 year succession plan this year we will also consider Board diversity based on the above indicators. The results will then inform our refreshed 3 year succession plan which is scheduled for Board approval at the August meeting.

4.22 In advance of this Board members will already be required to complete an equalities monitoring form as part of our Annual Return on the Charter.

Board template

4.23 The Group Board have approved a new Board reporting template based on feedback from Board members across the Group. The revised template, attached at Appendix 2, has mainly changed the ordering of the sections in the report and reintroduced the key issues and conclusions section.

4.24 The risk assessment and customer engagement sections were previously at the beginning of the report. However, feedback from Boards across the Group referenced that they are read these sections without the report having yet set out the proposals or activities to which they relate.

4.25 They have therefore been relocated to after the main discussion section to allow them to be read within the context of being clear what they relate to. The pack for today's meeting is in the new format by way of example of the new flow.

Risk/strategy workshop

4.26 A number of the risk related recommendations were contingent on the Board risk workshop. It is proposed that to ensure the risk discussion aligns with our strategy that the risk workshop is integrated with our strategy workshop planned for May. Based on the planned content, the risk discussion will be sufficiently concise to still allow a full discussion on our strategy as the strategic context element will have already been considered by the Board during the workshop.

4.27 In terms of our strategy workshop more widely it is intended that we will resume our previous discussions on branding at this workshop. This aligns with other partner organisations across the Group considering branding as part of the wider commitment in the Group strategy. It also aligns with our planned review of our Articles of Association.

4.28 [redacted]

4.29 [redacted

5. Customer engagement

5.1 A number of engagement events have been held with tenants, online and in person, across the region. This provided an opportunity for tenants to indicate whether they may be interested in applying for the tenant vacancy on the Board.

6. Environmental and sustainability implications

6.1 There are no direct environmental or sustainability implications arising from this report.

7. Digital transformation alignment

7.1 There are no digital transformation implications associated with this report.

8. Financial and value for money implications

8.1 There are no financial implications arising from the recommendations contained within this report.

9. Legal, regulatory and charitable implications

9.1 Our external legal advisors have provided advice in relation to the Novantie property transfers and associated board resolutions. Similarly, our external legal advisers have provided advice and were engaged in drafting the changes to the Articles of Association of DGHP3.

9.2 Standard 6 of the SHR Standards of Governance and Financial Management requires the governing body of all RSL's to 'have the skills and knowledge they need to be effective'.

10. Risk appetite and assessment

10.1 Our agreed risk appetite for governance is "cautious". This level of risk tolerance is defined as a "preference for safe delivery options that have a low degree of inherent risk and have only limited potential for reward". This reflects our risk appetite in relation to laws and regulation, which is "averse", with the avoidance of risk and uncertainty being a key organisational objective and a priority for tight management controls and oversight.

10.2 Our strategic risk register contains the risk that, "*The governance structure is not clearly defined, is overly complex and lacks appropriate skills at Board and Committee levels to govern the Group effectively. Failure of corporate governance arrangements could lead to serious service and financial failures*."

10.3 We mitigate this risk by having clearly defined roles and responsibilities across our governance framework, regularly reviewing our framework and submitting our governance arrangements to external review.

10.4 The proposed Board ToR seek to ensure that the role of this Board is well defined and has been developed based on feedback from the Board. The ToR also respond to the strategic governance review recommendation in relation to reporting and escalation arrangements.

10.5 It is intended that the range of changes associated with the strategic governance review are brought back to the Board as they are agreed, as well as, upon full agreement of the implementation approach, as a collective governance framework.

11. Equalities implications

11.1 The future approach to Board diversity will support us in ensuring that equality and diversity is formally embedded into our recruitment and succession planning.

12. Key issues and conclusions

12.1 The appointment of a tenant board member will ensure that we have the maximum number of tenants on our board and assist us to ensure that we have the correct mix of skills and experience on the Board.

12.2 The Strategic governance review, Terms of Reference provide further refinement of our governance processes. This is supported by the formalisation of how we consider Board diversity.

13. Recommendations

1) Agree to appoint Hugh Martin as a tenant board member;
2) Note the Chair's urgent action;
3) Provide feedback on and agree to recommend to the Group Board the proposed Board Terms of Reference;
4) Note the Board diversity indicators to be factored into our 3 year succession plan;
5) Note the revised Board reporting template;
6) Agree that we incorporate the risk review into our wider strategy workshop in May; and
7) [redacted]

List of Appendices

Appendix 1 – DGHP proposed Terms of Reference
Appendix 2 – Board reporting template

Dumfries and Galloway Housing Partnership Limited
Terms of Reference

General

1. Dumfries and Galloway Housing Partnership Limited ("the Company") is a Registered Social Landlord ("RSL") and a property factor, which it discharges through an agency agreement with Lowther Homes Limited.

2. In accordance with the Company's Articles from time to time:

    I. The Chair appointment will be approved by the Group Remuneration, Appointments, Appraisal and Governance Committee based on having relevant skills and experience; and
    II. Board members appointments, other than tenant Board members, shall be approved by the Group Remuneration Appointments, Appraisal and Governance Committee on behalf of the Parent based on their skills and experience.

3. Relevant members of staff will normally attend meetings of the Dumfries and Galloway Housing Partnership Board. The Board of Dumfries and Galloway Housing Partnership has the right to meet in private without the attendance of any non-Board members or staff.

4. The quorum for Board meetings shall be 5, or as otherwise defined by the Articles of the Company from time to time.

5. There will be no fewer than 6 meetings per year in compliance with the Scottish Housing Regulator Regulatory Framework requirements.

6. In addition to its Articles, the Company must adhere to the terms of:

    (i) the Wheatley Housing Group Limited Standing Orders; and
    (ii) an intra-group agreement with its parent Company which sets out the nature of the parent and subsidiary relationship including roles and responsibilities.

Delegated authorities

<u>Strategy, governance and performance</u>

7. Approval of the Company's 5 year strategy and any material updates during the life of the strategy.

8. Annual approval of performance measures and Dumfries and Galloway Housing Partnership specific strategic projects, including measures to achieve the delivery of the 5 year strategy.

9. Approve any amendments to the Intra-Group Agreement with the Parent Company.

10. Approve any amendments to the Services Agreement and associated Business Excellence Framework with Wheatley Solutions.

11. Approve the Agency Agreement with Lowther Homes in relation to the provision of factoring services on the Company's behalf.

12. Periodically review and approve recommendations to the Parent on the Company's Articles.

13. Approve the appointment of tenant Board members.

14. Approve the initiation of any formal consultation with all tenants.

15. Approve the Company's Annual Return on the Charter for submission to the Scottish Housing Regulator.

16. Not less than annually review and approve the Board's skills matrix and succession plan for consideration by the Group Remuneration, Appointments, Appraisal and Governance Committee.

<u>Finance</u>

17. Approval of the 5 year Financial Projections for incorporation into the Group 5 Year Financial projections.

18. Approve the annual loan portfolio and Five Year Financial Projections returns to the Scottish Housing Regulator.

19. Approve the annual rent increase and associated tenant consultation approach.

20. Annual approval of the annual budget for the financial year.

21. Review and approve the Company's financial statements.

22. Approve entering contracts on behalf of the Company as required under the Scheme of Financial Delegation from time to time.

23. Approve borrowing levels and any associated loan agreements, covenant returns and granting of security.

<u>Development, investment, leases, acquisitions and disposals</u>

24. Annual approval of the Company's rolling 5 year development programme.

25. Approve any property acquisitions or disposals by the Company, or parameters for where such acquisitions or disposals may be made under delegated authority.

26. Annual approval of the Company's rolling 5 year investment programme.

27. Approval of any stock reclassification, including designation of stock for demolition.

28. Approve the form, key terms and any amendments to the lease agreement for the management of Mid-Market properties by Lowther Homes Limited and delegation of authority to execute leases on the Company's behalf.

Assurance, policy and risk

29. Review and approve the Company's risk register and escalate any risk(s) to the Group Board in line with the Group risk management policy thresholds.

30. Approve any remedial action required in relation to Company specific material Internal Audit recommendations.

31. Approve Company specific policies as they relate to its activities, including, but not limited to:

- Advice, Information and Lettings (allocations) policy;
- Repairs and maintenance policy;
- Arrears and Debtors policy;
- Anti Social Behaviour policy; and
- Engagement Framework.

Other responsibilities

Governance and performance

32. Undertaken an annual Board self-assessment based on the approach agreed by the Group Remuneration, Appointments, Appraisal and Governance Committee.

33. Monitor financial performance against the agreed business plan and budget.

34. Monitor performance against agreed performance targets and strategic projects.

Assurance, policy and risk

35. Oversee the implementation of relevant group policies and frameworks.

36. Monitor the implementation of agreed risk mitigation actions.

Role of the Chair

37. The Chair is responsible for ensuring that the Board discharges its responsibilities.

38. The Chair of the Board or in absentia [the Vice-Chair, whom failing,] a Board Member appointed to chair a meeting of the Board is responsible for the smooth running of Board meetings. This includes:

- agreeing the agenda for each meeting;
- ensuring that any action points from previous meetings are considered timeously;
- ensuring that the meeting runs to time and that adequate time is allocated for each item;
- encouraging contributions and questions where appropriate from all members of the Board;
- ensuring that the resolutions identified in the papers are tabled and dealt with; and
- Undertake an annual appraisal of all Board members and facilitate an annual Board effectiveness review under the approach agreed by the Group Remuneration, Appointments, Appraisal and Governance Committee.

Reporting and escalation

- update the Board on any relevant matters discussed at the Group Board meetings held since the last Board meeting;
- Board meetings held since the last Group Board meeting;
- in discussion with the Group Chief Executive, advise the Group Chair and escalate to the Group Board any matters they agree may:
  - adversely impact the reputation of the Company or the wider Group;
  - have already or have potential to result in material non-compliance with legal or regulatory requirements; and
  - materially impact the financial viability of the Company and/or its ability to meet its obligations under any loan agreements and associated covenants.
- update the Group Board on any relevant matters discussed at the Company.

Report

To:

By:

Approved by:

Subject:

Date of Meeting:

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1. Purpose

1.1 This should very clearly set out what is being asked of the Board such as:

- Seek approval of [xxxx];
- Provide the Board with an update on [xxxxx].

This section **should not** stray into the content of the report and should mirror the recommendations. This should be a **maximum** of 1-2 paragraphs.

2. Authorising and strategic context

2.1 This section should specifically set out in what authorising context the Board/Committee is being asked to act. This must include a direct reference to at least one of the following:

- Intra-Group Agreement (IGA);
- Group Standing Orders (GSOs);
- Group Authorising Framework (GAF);
- Authorise/Monitor/Manage Matrix (AAMM);
- Scheme of Financial Delegation.

2.2 This section should also clearly identify the links to the Group/Partner strategy, setting out:

- Which strategic theme(s) the report relates to
- What strategic outcome(s) the report contributes to achieving
- Any associated strategic results
- Any specific strategy commitment the report relates to and/or will be met

It should also set out any other relevant strategic context, for example links to strategic objectives of partners or key stakeholders.

3. Background

3.1 Any **pertinent** issues which provide the context for the report e.g.:

- Previously agreed decisions, actions or Board discussions;
- Recap of pertinent information previously communicated;
- Any other relevant background information.

4. Discussion

4.1 This is the main body of the report and should set out clearly and fully cover what is set out in the purpose of the report and further detail the influence of the customer engagement.. For reports to partner Boards this should have a **clear focus** on what is relevant and applicable to the particular partner. For example where the report relates to a Group Policy or similar, it should not be a boiler plate replica of the Group Board report.

5. Customer Engagement

5.1 Our strategy has a very clear focus on enhancing our customer engagement and a significant element of co-development and co-design with our customers. This section should include details of:

- How we have engaged customers on development of any proposals in the report; and/or
- how we plan to engage customers on the proposals in the report

6. Environmental and sustainability implications

6.1 This section should clearly set out links to our supporting the delivery of our approach/objectives in relation to environmental and sustainability issues, including:

- Link to Green Investment activity;
- Reducing our carbon footprint;
- Renewable energy;
- Climate change.

7. Digital transformation alignment

7.1 Our Group Strategy sets a clear direction and is underpinned by digital transformation. This section should set out which digital transformation theme the proposals are contained within and/or will be contributing to delivering. It should also confirm whether the proposals are contained within the Digital Transformation Programme.

7.2 Where the proposals are not already included within the Digital Transformation Programme this section must:
- detail why they are not in the existing plan
- detail how they will be resourced within the proposed timescale

8. Financial and value for money implications

8.1 The financial implications or analysis associated with the report should be clearly identified and where possible quantified. This should be linked to how any proposals or courses of actions will be funded and will, as appropriate, cover areas such as:

- Source of funding (including relevant group entity, partnership or other available funding e.g. Government / Local Authority pots and funds);
- Impact on budget;
- Business plan implications, including impact on surplus;
- Key milestones;

8.2 This section should also confirm how the proposal provides value for money, for the business and for tenants/customers/people we work for.

8.3 Where there are no implications, such as scrutiny / update reports (e.g. Finance report or performance report) the section should expressly state that this is the case.

9. Legal, regulatory and charitable implications

9.1 This section should clearly outline the relevant legislation and regulation which applies to the subject matter. It should set out the implications of the legislation, including how these have been incorporated in any proposals or reference where such information is already contained within the body of the report.

9.2 It should include:-

- an assurance that the necessary checks have taken place to ensure that there is no risk to legal compliance and provide details of any legal advice received;
- details of any consents required with the proposals e.g. SHR or funder; details of any legal or regulatory consultation requirements with tenants or people we work for.

[GUIDANCE / INPUT SHOULD BE SOUGHT FROM LEGAL / GOVERNANCE AND FINANCE]

10. Risk Appetite and assessment

10.1 The report should make a **specific reference** to the Board's approved risk appetite level in relation to the subject matter e.g.:-

Our agreed risk appetite in [insert risk area] is [insert tolerance level]. This level of risk tolerance is defined as "[insert the definition for risk rating]".

Where there is no defined existing or linked risk appetite level, consider proposing a new risk appetite for approval.

10.2 It should then go on to identify the key risks / overall level of risk associated with the proposals, taking into account all of the commentary in sections 4-9.

11. Equalities implications

11.1 This section should set out how any proposals made ensure we continue to comply with equalities legislation, where applicable.

12. Key issues and conclusions

12.1 This section should act as a summary recap of the key issues and conclusions drawn from the preceding sections. This should be in an executive summary style as an aide memoir to the Board/Committee before they consider the recommendations.

13. Recommendations

13.1 This section should clearly set out what the governing body is being asked to do, eg specific approvals and decisions that are being sought. This should reflect the purpose section.

WHERE THERE IS A CONSENT REQUIREMENT, THE RECOMENDATIONS SHOULD CLEARLY STATE THE RECOMMENDATION IS SUBJECT TO RECEIVING SUCH CONSENT

LIST OF APPENDICES:-

All appendices within the document should be identified. All attached documents outwith the report should be identified as an Appendix and appropriately numbered, not referred to as ‘attached’ or ‘enclosed’ etc.

Report

To: DGHP Board

By: Alan Glasgow, Managing Director

Approved by: Steven Henderson, Group Director of Finance

Subject: New operating model update

Date of Meeting: 30 March 2022

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1. Purpose

1.1 This report updates the Board on progress with our new operating model and the proposed next steps as we emerge from the Scottish Government's Omicron-related restrictions.

2. Authorising and strategic context

2.1 Our new operating model is a key part of our 2021-26 strategy and has been subject to detailed review and approval prior to its implementation by the Group and partner organisation Boards. This includes our largest-ever tenant engagement exercise which allowed us to establish that it has strong support amongst our customers. However, given its ongoing strategic importance, it is proposed that we continue to update the Board on its progress throughout the course of the year.

3. Background

3.1 From the beginning of February, the Scottish Government relaxed the requirement for home working wherever possible in favour of permitting hybrid working. On the 22nd February, it published an updated Strategic Framework which sets out in greater detail the approach to be taken across Scotland to manage Covid more sustainably and less restrictively in the remaining phases of the pandemic, and then as the virus is anticipated to become endemic.

3.2 The restrictions imposed over December and January meant the ability of our staff to meet in person was limited. Our *Wheatley Way* staff engagement sessions were paused, and Board meetings went back to being online. Despite this backdrop, we have continued to make good progress with the implementation of our new operating model.

4. Discussion

4.1 The tenant consultation carried out last autumn contained four key customer-facing elements that underpin our new operating model. These were:

(i) Customer First Centre

4.2 The Customer First Centre launched successfully on 1 December and has since handled over 135,000 calls, of which around 40% related to repairs. The Centre is open 24/7, 365 days a year. Specialist teams of housing professionals are now in place to support the call handlers and the overall resource in the centre has increased by 110 people on the previous call centre. The Customer First Centre will become fully operational to our teams as of 28th March 2022 when we fully migrate across to all group systems.

4.3 We have updated and simplified the phone line structures and messages, reducing the number of routes/queues ("press 1 for repairs", etc) from 17 to 6; increasing use is being made of text for customer comms and this will continue with the environmental text update service presented to the Board last year. The technical IT system work has now been completed in readiness for extending web-chat to more service areas post-April.

4.4 Early evidence shows that the Customer First Centre is proving to be an efficient way for tenants to get day-to-day problems solved and questions answered quickly. At the start of week commencing 14th February, the grade of service had risen to 90% of calls being answered within 30 seconds (10% higher than our target), 92% were resolved by the call handler with no hand-offs to other staff required and the call abandonment rate was below 3%, compared to 13% last November.

4.5 Initial feedback from housing officers is that they are experiencing a significant reduction in tasks allocated by the CFC (via our customer relationship management system) compared to the previous call centre. The percentage of repairs being raised by housing officers has also dropped, from over 30% last October to 12-15% by the start of February. This supports our commitment to reducing the transactional-type workload for housing officers, thereby freeing them up to spend more time out and about in our communities. We will continue to evaluate the activity profile of housing officers as part of our evaluation of the operating model over the course of the year. Our housing officers will benefit from the full service of the CFC when we migrate to systems on the 28th March 2022.

4.6 We have commissioned an external review of the CFC, to be carried out during March and April. This will provide an independent assessment of what is working well and areas we should focus on for further development after the first few months of its operation. We anticipate that a further detailed review will be carried out in 12 months' time to provide us with an external view on how well the significant investment we have made in the CFC is delivering on our objectives.

(ii) More services in your home

4.7 Over recent months, our housing officers have continued to operate throughout our communities and deliver services to the door of customers' homes. Our staff are meeting customers face to face through home visits, or in locations of the customer's choice in the community, to deal with complex cases, supporting the most vulnerable and dealing with anti-social behaviour and estate management.

4.8 The ability of housing officers to support customers in their homes will be particularly important in the coming months for those on Universal Credit, as we can provide face-to-face support to help tenants navigate their DWP online journal and amend their claims to take account of the upcoming rent increase.

(iii) Do more online

4.9 Housing applications in other areas of the Group are already fully online through our *MyHousing* page. A project to transition our staff to the use of MyHousing is in development, and an update will be brought back to the Board later in the year.

4.10 The Board approved a significant new digital service offering last autumn for environmental services, which will introduce a range of electronic communications for customers on issues such as stair cleaning and grass cutting. This is due to be introduced in the summer.

4.11 On repairs, we have conducted user experience testing on our repairs ordering website with small groups of tenants in preparation for it going live again. However, to deliver the full range of service to customers set out in our strategy – the "Book It, Track It, Rate It" approach – we will need to deploy a new system. We have identified a preferred provider (Localz) and are working with them on developing this approach.

4.12 In line with our project plan for the year, we have carried out a detailed evaluation, including feedback from a group of tenants, of potential "community apps" which could contain content about local events, customer news and information, etc. In response to tenant feedback, we propose not to develop an app just for this purpose, but to broaden our successful local digital engagement forums such as community Facebook pages instead. In this context, our social media engagement over the last year has seen:

- Nearly 300,000 social media accounts reached;
- 144 new social media followers take the total to nearly 45,000;
- 40% increase in visits to Wheatley's careers pages;
- Facebook and Instagram reach doubles year-on-year; and
- and a 10% increase to Wheatley Group website traffic compared to December 2020.

4.13 Our strategy will focus on the development of a Wheatley app that offers key services, in particular repairs booking functionality.

(iv) Our new hubs – centres of excellence

4.14 Our interim Dumfries Hub, at Brasswell Business Park on the west edge of the town, will be open around the end of March. The planned long term hub, in the town centre, is still subject to detailed discussions with planning with an anticipated completion date of the end of the year. In Stranraer, this Board and Group Development Committee have now approved the demolition proposals for the existing office, with in-principle agreement that a new hub and 12 residential units will be delivered on the site later this year.

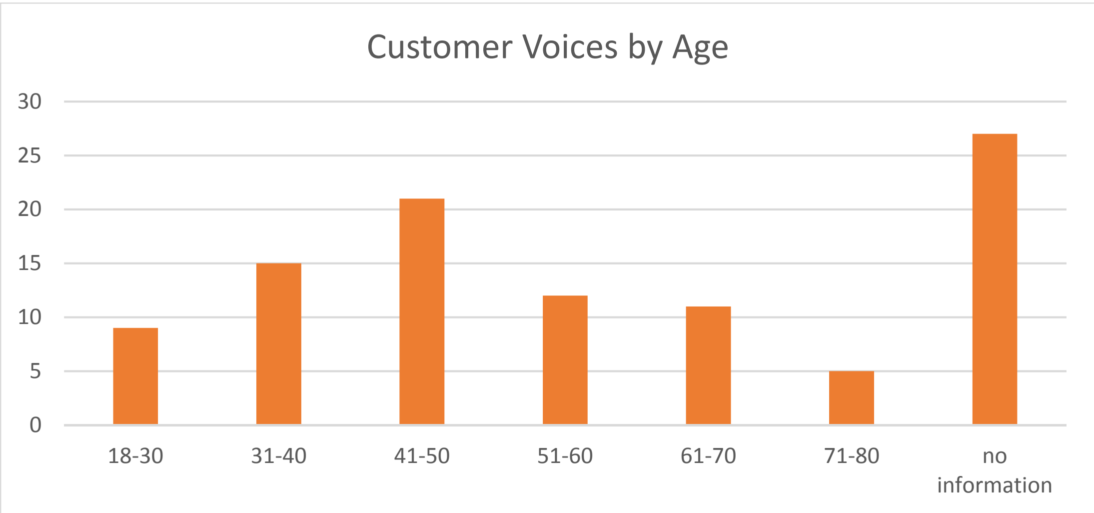
4.15 We currently have an interim hub in Stranraer, which is based at Commerce Road, which is just based outside the town centre. This is fully operational and allows space for over 40 staff to be used as an interim solution until our fully operational Hub in Stranraer is complete.

New engagement structures

4.16 To support our new way of engaging we have recruited our first 100 Customer Voices across the Group, of which over 20 of these are our customers. These Customer Voices – covering every one of our RSLs - are customers who have been involved in recent engagement work with us such as rent consultation focus groups; web self-service testing; local neighbourhood walkabouts and regeneration activity. As a follow on from these activities we have asked those involved if they would like to sign up with us as a Customer Voice, enabling them to take part in further activities with us to influence service design and local investment.

4.17 We have also organised local community events over February and March this year for housing officers and stronger voice officers to engage with our customers within their communities and to provide them with information and what being a customer voice entails as well as providing information on our social media platforms that will enable us to build up our database of customers who want to be actively engaged with us on local or group-wide activities.

4.18 Part of our commitment in the Stronger Voices engagement framework was to increase the diversity of those customers who actively engage with us to influence services and investment. Analysis of our first 100 Customer Voices show a gender split of 30% male to 70% female, so we will review how we can attract more male customers to become involved. We have also segmented our Customer Voices by age, where people were willing to share that information with us. As the chart below shows we have some diversity across age bands, and the fact that we have been promoting more digital engagement activities is likely to have helped us attract more customers in lower age bands than we have been able to previously.



4.19 Our Customer Voice engagement programme for 2022/23 is currently in development. This includes strategic group-wide projects as well as local activities such as neighbourhood walkabouts, identifying local Customer Voice investment projects, You Choose Challenges for community development, and regeneration engagement.

4.20 In terms of Group-wide engagement activities, this will feature the following topics:

- Equality and diversity – focus groups with customers looking at the development of our Equality and Diversity approach and the information we collect from customers for this purpose;
- On-line services – further customer journey mapping and user research with customers to ensure our on-line service offering meets customer needs and requirements;
- Customer First Centre – we will be using customer insight to improve and refine this service, and we will also involve Customer Voices in the scrutiny of this information through engagement panels;
- Community led development – we will use a mixture of focus groups and surveys to work with local communities in areas where we have proposed new build sites; and
- Repairs – we will use focus groups and customer journey mapping to gather insight and improve customer experience of our repairs service in each region of the Group.

New working model for staff

4.21 The new operating model also changes the way many of our staff work. Even those whose working patterns and locations may not change – such as our environmental operatives – will be impacted in some way by the changes. For example, the changing corporate office footprint will have an impact on how they work. It will be important that we understand the differential impacts in parts of the Group so that we can learn how the model is working and make adjustments as necessary.

4.22 A steering group will be established to oversee the key workstreams. These will include:

- **A review of our policies and procedures** – while a number of key policies have already been updated, such as health and safety, lone working and working from home; it will be important to assess how these are operating in practice, as well as identifying any further amendments necessary to these or other policies. For example, we may augment areas of staff guidance to reflect the long term use of video conferencing;
- **Understanding the staff experience** – we continue to engage with staff to understand their experiences of the new working model and any elements we may need to adjust. This will also inform an assessment of training needs and building design/functionality, such as whether changes need to be made to the layout or operation of Wheatley House or other new hubs to support staff working arrangements;
- **Learning and development** – this operates differently in a blended working context, with a mix of online and face-to-face approaches. The group will consider the balance between these and which models are proving most effective; and

- **Leadership** – this year we will launch our leadership development programme, but we recognise that this will require ongoing adaptation in light of staff feedback and experiences of how leadership models are evolving in the blended working environment. Staff empowerment and a culture of trust have been key elements of our Think Yes culture, and we will consider how this continues to develop in our new model; for example, through considering questions such as how we might devolve more responsibility and accountability to repairs trades teams.

5. Customer engagement

5.1 A letter was issued to all RSL tenants at the end of January informing them of the results of the consultation on the operating model and, in the case of GHA tenants, of the proposed name change to Wheatley Homes Glasgow. It also informed tenants that the Customer First Centre has been established and sought interest for becoming part of our new engagement structures. Further detail of the next steps with these aspects of our new model is provided below.

6. Environmental and sustainability implications

6.1 The new operating model supports our objective to transition to a net zero corporate carbon footprint by 2026. The reduced office footprint, more energy efficient buildings and reduced staff travel form part of this. A more detailed update will be provided to future Board meetings.

7. Digital transformation alignment

7.1 The new operating model is a key element of our digital transformation plans. In addition to developing our digital customer services, we are increasingly using digital means of engagement – for example, this year we have run rent focus groups online for the first time.

8. Financial and value for money implications

8.1 The proposals in this report can be funded within existing budgets as set out in our business plan projections; there are no new financial implications.

9. Legal, regulatory and charitable implications

9.1 To support our new operating model, we will undertake a review of compliance with laws, policies and regulations across all areas of the Group over the coming months. This will provide a further level of assurance that in changing our operating model and working practices, we continue to be compliant with applicable requirements. This will include technical building maintenance and environmental requirements such as water testing, electrical checks and fire safety. It will also cover compliance with corporate governance and regulatory requirements such as Companies House, Scottish Government and Scottish Housing Regulator codes of practice and Financial Conduct Authority rules.

10. Risk appetite and assessment

10.1 Our risk appetite for service delivery innovation is “open”; which means we are prepared to take risk and embrace change. In this context, our new operating model represents a significant change from our previous approach, and it is critical to the success of our overall 2021-26 strategy.

10.2 If key elements do not operate effectively – for example the Customer First Centre (CFC) or the model of hybrid working – then there is a risk that we might fail to deliver our strategic objectives around customer satisfaction, service standards and staff morale. For that reason, this paper sets out a number of measures designed to closely monitor the impact and effectiveness of our new operating model and to allow us to refine elements of it as required in the coming months.

11. Equalities implications

11.1 There are no further equalities implications associated with this report.

12. Key issues and conclusions

12.1 Our new operating model was developed in consultation with tenants and we are continuing to progress across each of the key themes we set out in our consultation with tenants.

13. Recommendation

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

Report

To: DGHP Board

By: Brian Montgomery, Interim Head of Finance

Approved by: Steven Henderson, Group Director of Finance

Subject: 2022/23 Budget

Date of Meeting: 30 March 2022

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1. Purpose

1.1 The purpose of this paper is to seek the Board's approval for the 2022/23 budget

2. Authorising and strategic context

2.1 Under the terms of the Intra-Group Agreement between Dumfries and Galloway Housing Partnership ("DGHP") and the Wheatley Group, as well as the Group Authorise, Manage, Monitor Matrix, this Board is responsible for the on-going monitoring of performance against agreed targets. This includes the on-going performance of its finances.

2.2 The strategic context is of a challenging external environment, with inflation rising rapidly on fuel, utilities and construction materials. The business plan approved by the Board in February set out a range of measures to address these cost pressures while complying with our financial policies.

3. Background

3.1 At the previous meeting in February 2022 the Board were presented with the revised five year financial projections and agreed that the 2022/23 figures would form the basis of the 2022/23 annual budget, which is presented in Appendix 1. This paper provides additional detail and commentary.

4. Discussion

4.1 The detailed budget pack presented at Appendix 1 tracks comparative figures from the 2021/22 forecast to the 2022/23 budget to give the context of the year-on-year changes.

4.2 The 2022/23 budget reports an operating surplus of £13,285k, and a statutory surplus of £8,105k, both £266k lower than the financial projections approved in February 2022. This reduction is in recognition of the continuing challenging economic environment since our financial projections were prepared. We are expecting further increases in insurance costs as we finalise the renewal terms in a difficult market. Inflationary pressure has continued to grow in materials, utilities and fuel costs pushing prices even higher exacerbated by hostilities in the Ukraine and the direct effect Russian sanctions are having on gas and oil costs and additional provision has also been set aside for higher costs.

4.3 To mitigate an element of the financial impact of these changes, we propose to rephase £1,600k of the capital programme in recognition of the materials inflation present in the market. We expect prices to continue to increase in the short term and reduce at a later point as the market stabilises. We will re-assess the timing of a portion of our kitchens and window programme in the second half of the financial year and release the phasing adjustment if prices are stabilising.

4.4 The net operating surplus budgeted of £13,285k compares to a forecast of £17,512k for 2021/22, lower by £4,227k. The key drivers for this year on year variation are non cash in nature with lower grant income recognised on the completion of new build properties and a higher adjustment for depreciation charges as a result of the value of investment works carried out in our properties over the recent years.

Other key points to note:

- Net rental income of £44,529k is in line with financial projections and reflects the agreed 2.0% rent increase and includes a prudent void assumption of 1.5%.
- Grant income of £3,624k relates to completions of 37 new build social housing units in the 2022/23 financial year.
- Operating costs in total are £266k higher than the financial projections with the inclusion of the additional amounts for insurance in direct running costs and the higher provision for utilities and fuel.
- The budget for net interest payable of £5,180k is in line with the financial projections.
- The budget for net capital expenditure of £26,019k includes £16,775k of investment spend on our existing stock as well as £9,391k of funding for our new build programme. The variance to the financial projections is in the core programme as noted 4.3 above.

5. Customer engagement

5.1 This report relates to our 2022/23 budget and therefore there is no direct customer implications arising from this report.

6. Environmental and sustainability implications

6.1 There are no environmental or sustainability implications arising from this report.

7. Digital transformation alignment

7.1 There are no digital transformation alignment implications arising from this report.

8. Financial and value for money implications

8.1 The financial projections incorporate cost efficiency measures, which are a key element of continuing to demonstrate value for money. These are reflected in the annual budget and performance will be monitored against budget each month.

8.3 Financial covenants are assessed for us and the RSLs within the WFL1 borrowing group as a whole. In preparing the 2022/23 budgets across the RSL borrower group, we have identified financial mitigations to allow the overall budgeted operating surplus and covenant compliance for the WFL1 borrowers to be maintained in line with the RSL financial projections and to remain compliant with our agreed financial policies while making provision for increases in insurance, utility and fuel costs.

9. Legal, regulatory and charitable implications

9.1 There are no direct legal, regulatory and charitable implications arising from this report.

10. Risk appetite and assessment

10.1 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".

10.2 Delivery of financial results within approved budgetary limits is a key element in delivering our strategy and maintaining the confidence of investors.

11. Equalities implications

11.1 There are no equalities implications arising from this report.

12. Key issues and conclusions

12.1 This paper presents the proposed 2022/23 budget.

13. Recommendation

13.1 The Board is requested to approve the draft 2022/23 budget

List of Appendices
Appendix 1 - DGHP Budget 2022/23

2022-23 Budget

1) Operating Statement

Operating Statement	2021-22 Full Year Forecast £000's	2022-23 Financial Projections £'000's	Budget £'000's	Variance £'000's
INCOME				
Rental Income	45,388	45,184	45,184	-
Void Losses	(398)	(654)	(654)	-
Net Rental Income	**44,990**	**44,529**	**44,529**	-
Grant Income	4,084	3,624	3,624	-
Other Income	2,935	2,740	2,740	-
TOTAL INCOME	**52,009**	**50,893**	**50,893**	-
EXPENDITURE				
Employee Costs - Direct	4,396	4,933	4,933	-
Employee Costs - Group Services	2,086	2,807	2,807	-
Transformation	479	-	-	-
Direct Running Costs	2,627	2,472	2,528	(56)
Running Costs - Group Services	2,124	1,813	1,813	-
Revenue Repairs and Maintenance	9,979	10,038	10,248	(210)
Bad debts	1,052	943	943	-
Depreciation	11,510	13,649	13,649	-
Demolition	244	688	688	
TOTAL EXPENDITURE	**34,497**	**37,342**	**37,608**	**(266)**
NET OPERATING SURPLUS	**17,512**	**13,551**	**13,285**	**(266)**
Interest receivable	67	33	33	-
Net Interest payable & similar charges	(6,349)	(5,213)	(5,213)	-
STATUTORY (DEFICIT)/SURPLUS	**11,230**	**8,371**	**8,105**	**(266)**

INVESTMENT	Full Year Forecast £000's	Financial Projections £'000's	Budget £'000's	Variance £'000's
TOTAL CAPITAL INVESTMENT INCOME	**1,422**	**5,063**	**5,063**	-
Total Expenditure on Core Programme	32,816	18,375	16,775	1,600
New Build	10,468	9,391	9,391	-
Other Capital Expenditure	2,368	4,916	4,916	-
TOTAL CAPITAL EXPENDITURE	**45,652**	**32,682**	**31,082**	**1,600**
NET CAPITAL EXPENDITURE	**44,230**	**27,619**	**26,019**	**1,600**

- The 2022/23 budget shows a net operating surplus of £13,285k and a statutory surplus after finance costs of £8,105k, which are both £266k unfavourable to the financial projections. The movements from the financial projections are due to increases in insurance premiums following the outcome of the 2022/23 insurance renewal and a provision for higher fuel costs for in house repairs and maintenance vehicles.
- **Net Rental income** is budgeted at £44,529k and is in line with the financial projections. The budgeted void rate is prudently assumed at 1.5% for all properties in line with financial projections.
- **Grant Income** recognised on completion of new build units is budgeted at £3,624k with completion of 37 social rent units anticipated in 2022/23.
- **Direct and Group services employee** costs are in line with the financial projections and reflect the cost of living increase. Group services of £2,807k includes the costs for support functions such as Finance, IT and HR, as well as the additional staff resources supporting the Customer First Centre provided by Wheatley Solutions.
- **Direct running** costs are budgeted at £2,528k, which is £56k higher than the financial projections, reflecting higher insurance costs. The budget includes initiative spend, the donation to the Wheatley Foundation and includes provision for full year costs of the Neighbourhood Environmental Team that was launched in July 2021. **Group services running** costs are in line with financial projections.
- **Repairs and maintenance** costs of £10,248k are assumed in the budget, which is £210k higher than the financial projections; this includes an increase for fuel costs.
- **Bad debt** costs are in line with financial projections and have been set prudently.
- **Depreciation** costs which reflect a non cash accounting adjustment are £2,139k higher than the expected 2021/22 charge, with the increase driven by the high level of investment in our properties.
- **Demolition** costs are budgeted at £688k, to cover the demolition of 112 units as part of the asset regeneration programme.
- **Core programme** expenditure has been budgeted at £16,775k, which is £1,600k lower than the financial projections. This is in recognition of materials inflation in the market and reflects a reprofiling between financial years.
- **New build** expenditure of £9,361k has been budgeted for 2022/23, with a further £4,916k for the new office accommodation strategy and DGHP's share of Group investment in IT technology.
- **Capital Investment Income** (cash) of £5,063k is expected to be received in the year for the new build programme.

2) Operating Statement

- The Operating Statement (Income and Expenditure Account) on page 2 is prepared in accordance with the requirements of accounting standards (Financial Reporting Standard 102 and the social housing Statement of Recommended Practice 2014).
- However, the inclusion of grant income on new build developments creates volatility in the results and does not reflect the underlying cash surplus/deficit on our letting activity.
- The chart below therefore shows a measure of underlying surplus which adjusts our net operating surplus by excluding the accounting adjustments for the recognition of grant income and depreciation, but including capital expenditure on our existing properties.
- An underlying surplus of £1,355k is budgeted which is £1,334k higher than the financial projections, with the changes between the budget and financial projections detailed in the operating statement on page 2. The variance is driven by the timing of core investment expenditure. The 2021/22 forecast shows an underlying deficit of £14,160k as a result of the substantial investment programme which is delivering catch up works to meet SHQS and EESSH.

DGHP Underlying surplus/ deficit

	21/22 Fcast £k	22/23 Projections £k	22/23 Budget £k
Net operating surplus	17,512	13,551	13,285
add back:			
Depreciation	11,510	13,649	13,649
less:			
Grant income	(4,084)	(3,624)	(3,624)
Net interest payable	(6,282)	(5,180)	(5,180)
Total expenditure on Core Programme	(32,816)	(18,375)	(16,775)
Underlying (defecit)/surplus	**(14,160)**	**21**	**1,355**

3) Rental and other income

Rental and Other Income	2021-22 Full Year Forecast £'000s	2022-23 Budget £'000s
INCOME		
Rental Income	45,388	45,184
Void Losses	(398)	(654)
Net Rental Income	**44,990**	**44,529**
Grant Income - New Build Grant	4,084	3,624
Other Income		
Recharge to Solutions	-	220
Medical Aids and Adaptations	780	500
RHI/ Feed in tariffs	439	49
Service Charges	200	233
Leasehold rents	193	127
Young Persons Project	185	185
Supporting People	119	-
Temporary Accommodation	500	578
MMR	-	430
Commercial Properties	-	60
Factoring	150	-
Garages	369	359
Other income	**2,935**	**2,740**
Total income	**52,009**	**50,893**

DGHP

Comments:

- Net rental income is budgeted at £44,529k and includes the 2% rent increase. The budget is based on anticipated opening stock levels at 1 April 2022 and adjusted for the completion of new build properties (37 social rent properties in 2022/23) and deduction of any properties being cleared for demolition.
- Void losses are budgeted at 1.5% for all stock which matches the prudent assumption made when preparing the financial projections.
- New build grant income of £3,624k is expected to be released in 2022/23 in relation 37 social rent properties at Monreith (5) and Lincluden (32).
- Other income includes:
  - Lease income from Wheatley Solutions for their use of the DGHP office in 2022/23.
  - Medical Aids and adaptations grant income is assumed to be received to fund medical adaptations. This is projected to be below costs with income of £500k assumed in 2022/23.
  - RHI income also continues in line with grant applications and has been assumed on a prudent basis
  - Service charge income of £233k is budgeted from the suite of other services offered to tenants such as stair cleaning.
  - Temporary Accommodation of £578k is budgeted for 2022/23 in line with the current contract.
  - MMR lease income and Commercial property income is budgeted for 2022/23 and reflects income from Lowther Homes based on Lowther assuming management from Novantie of DGHP’s mid market rent portfolio and commercial properties from 1 April 2022.
  - Garage and garage site rents are budgeted for 2022/23 at £359k, net of voids.

4) Expenditure

Expenditure	2021-22 Full Year Forecast £'000s	2022-23 Budget £'000s
Employee Costs		
Direct	4,396	4,933
Recharged from Wheatley Solutions	2,086	2,807
Total staff Costs	**6,482**	**7,740**
Running costs		
Premises and insurance	720	820
Travel and staff related expense	97	100
Community initiatives including Helping Hands and Think Yes	254	276
Wider Role - Temp accom , sheltered and YPP	547	524
Management fee from Care for YPP, Temp Accom & Sheltered	58	76
Fee for management of MMR (Novantie)	120	-
Common Housing register	128	150
Various other subscriptions, printing , stationery , postage	228	250
NETS	476	332
Support Services now recharged by Wheatley Solutions	2,124	1,813
Total running costs	**4,751**	**4,341**
Total overhead expenditure	**11,233**	**12,081**

Comments:

Total expenditure is budgeted to be £11,860k compared to 2021/22 forecast of £11,233k, an increase of £627k.

Employee costs of £7,740k are as per the financial projections and include the cost of living increase of 3.5%. The increase in Group services costs relates to the additional resource supporting the new Customer First Centre, as was assumed in our financial projections approved by the Board in February.

Total running costs (Direct and Group services) are budgeted at £4,341k for 2022/23, which is £56k higher than the provision in the financial projections to allow for higher insurance costs as we finalise the annual renewal. The majority of the budget relates to general running costs and property costs.

- The budget includes provision for the donation to the Foundation, community initiatives funding support Think Yes and Helping Hands.
- Wheatley group will recharge the cost of support services such as IT, HR, Finance, H&S, Legal, Governance , and Marketing. The budgeted cost reduction of £531k versus forecast for 2021/22 reflects a share of group savings targets.

5) Repairs and maintenance

Repairs and maintenance	2021-22 Full Year Forecast £'000s	2022-23 Budget £'000s
Reactive	7,615	6,687
Gas Servicing	766	1,335
Property Cyclical	840	819
Compliance	758	1,407
TOTAL	**9,979**	**10,248**

Comments:

- Total **repairs and maintenance costs** are budgeted at £10,248k, £210k higher than the financial projections reflecting the additional provision to cover higher fuel costs for repairs and maintenance vehicles.
- Reactive repairs are budgeted to reduce following the clearance of the backlog following reprofiling in 2021/22 as a result of the pandemic.
- The cyclical program includes pest control, fencing, slabbing, arborists and maintenance of stair lighting.
- The costs of the in-house repairs team is expected to be fully recovered against repairs jobs in the year.

6) Capital Expenditure

Core Programme	2021-22 Full Year Forecast £'000s	2022-23 Budget £'000s
Core Programme	24,161	11,866
Compliance capital	2,392	240
Capitalised Voids	3,584	2,987
Adaptations	1,581	600
Capitalised Staff	1,098	1,082
TOTAL	**32,816**	**16,775**

New Build	2021-22 Full Year Forecast £'000s	2022-23 Budget £'000s
New build Development Programme	9,715	7,746
Other Capital Costs including Demolition Costs	753	1,645
Total	**10,468**	**9,391**

Comments:

- Total **Core Programme** for 2022/23 set at £16,775k. The spend in 2021/22 was significantly higher ensuring we met and maintained properties to current regulatory standards by March 2022 in light of the Covid 19 restrictions that delayed the delivery of these works in 2020/21.
- An allocation of £702k is included for our Customer Voice and Think Yes funds. These funds will be used for tenant directed investment works, building customer engagement into the investment programme and ensuring that DGHP deliver the projects most important to out tenants.
- Investment in **new build** properties has been budgeted at £4,328k. The programme is in line with the financial projections and the updated 5 year new build programme presented to the Board in February 2022.
- A total of 37 social housing units are budgeted to complete in the coming year, with £7,746k of spend invested, supported by £5,063k of grant income.
- Capitalised Demolition costs of £618k are included within the new build budget for 2022/23 with demolition costs of £688k being reflected in the operating expenditure.

DGHP

Report

To: DGHP Board

By: Brian Montgomery, Interim Head of Finance, DGHP

Approved by: Steven Henderson, Group Director of Finance

Subject: Financial performance to 28 February 2022

Date of Meeting: 30 March 2022

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1. Purpose

1.1 The purpose of this paper is to provide an overview on the financial performance for the period to 28 February 2022.

2. Authorising and strategic context

2.1 Under the terms of the Intra-Group Agreement between DGHP and the Wheatley Group, as well as the Group Authorise, Manage, Monitor Matrix, the Board is responsible for the on-going monitoring of performance against agreed targets. This includes the on-going performance of its finances.

3. Background

Financial performance to 28 February 2022

3.1 The results for the period to 28 February are summarised below.

	Year to Date (Period 12)		
£m	**Actual**	**Budget**	**Variance**
Turnover	46.8	43.6	3.2
Operating expenditure	31.6	31.6	-
Operating surplus	**15.2**	**12**	**3.2**
Operating margin	*32%*	*28%*	4%
Net interest payable	5.8	5.6	(0.2)
Surplus	**9.4**	**6.4**	**3.0**
Net Capital Expenditure	**39.2**	**43.5**	**4.3**

4. Discussion

4.1 A net operating surplus of £15,208k is reported, which is £3,210k favourable to budget. The key driver of the variance is higher grant income due to timing versus budget together with higher net rental income and lower running and bad debt costs

4.2 Key points to note:

- Net rental income is £582k favourable to budget benefitting from the earlier completions at Sanquhar in March 2021. Void losses represent 0.84% of gross rent, which is 0.16% favourable to the budget which is set at 1%.
- Grant income to date is £2,458k favourable to budget. The budget was based on 12 completions at Sanquhar in the year which were recognised in March 2021, on early completion. Actual grant income relates to the 5 units at Monreith which were delayed from the prior year and Phase 1 (26 of 32 units) at Lincluden of £2.9m handed over in September.
- Other income is favourable by £175k to budget driven by funds received for the Aids and Adaptations claim.
- Total expenditure is £5k unfavourable to budget with favourable variances in total running costs and bad debts being offset by unfavourable variances in total employee costs and repairs:
    - Employee costs are £323k higher than budget and include the cost of additional resources in the new Customer First Centre to promote our new ways of working, delivering service improvements to customers.
    - Repairs costs are £342k higher than budget with demand levels increased following pandemic restrictions. The number of outstanding jobs has reduced by 86% since January 2022.
- We have reported a net capital spend of £39,163k, which is £4,353k lower than budget year to date.

4.3 Key points to note:

- Capital investment activity in our existing properties has increased over recent months, with a focus on delivering the planned 2021/22 programme. The year to date spend is £1,473k lower than budget across having reduced from an underspend of £5,886k in September 2021.
- New Build expenditure is £5,742k lower than budget, driven primarily by lower levels of spend versus budget at Lincluden (£4.4m). Similarly, Sanquhar was fully completed in 2021 and Lincluden had accelerated spend in Q4 of 2020/21.
- Other capital expenditure of £2,025k is £1,836k lower than budget. Spend on the Dumfries hub has been delayed due to planning consents taking longer.

5. Customer engagement

5.1 This report relates to our financial reporting and therefore there is no direct customer implications arising from this report.

6. Environmental and sustainability implications

6.1 There are no environmental or sustainability implications arising from this report.

7. Digital transformation alignment

7.1 There are no digital transformation alignment implications arising from this report.

8. Financial and value for money implications

8.1 The statutory surplus for the period to 28 February 2022 is £9,366k which is £3,014k favourable to budget. Delivery of our cost efficiency targets is a key element of continuing to demonstrate value for money. The underlying surplus for the period to 28 February 2022 was a deficit of £12,131k which is £2,029k favourable to budget ensuring that these efficiency targets are met.

9. Legal, regulatory and charitable implications

9.1 There are no direct legal, regulatory and charitable implications arising from this report.

10. Risk appetite and assessment

10.1 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".

10.2 Delivery of financial results within approved budgetary limits is a key element in delivering our strategy and maintaining the confidence of investors.

11. Equalities implications

11.1 There are no equalities implications arising from this report.

12. Key issues and conclusions

12.1 This paper presents the financial performance position for the period to 28 February 2022.

13. Recommendation

13.1 The Board is requested to note the financial performance for the period to 28 February 2022.

List of Appendices

Appendix 1: DGHP Finance Report to 28 February 2022

Year to 28 February 2022

Finance Report

Click to add text

1a Operating statement P11 – February 2022

OPERATING STATEMENT	Year to February 2022 Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
INCOME				
Rental Income	41,152	40,534	618	44,772
Void Losses	(347)	(311)	(36)	(344)
Net Rental Income	**40,805**	**40,223**	**582**	**44,428**
Grant Income	3,415	957	2,458	5,291
Other Income	2,600	2,425	175	2,655
TOTAL INCOME	**46,820**	**43,605**	**3,215**	**52,374**
EXPENDITURE				
Employee Costs - Direct	4,008	3,934	(74)	4,344
Employee Costs - Group Services	2,007	1,758	(249)	1,918
Transformation budget	649	305	(344)	305
Direct Running Costs	2,324	2,424	100	2,672
Running Costs - Group Services	1,938	2,236	298	2,344
Revenue Repairs and Maintenance	9,604	9,262	(342)	9,909
Bad debts	357	964	607	1,052
Depreciation	10,551	10,551	(0)	11,510
Demolition	174	174	-	244
TOTAL EXPENDITURE	**31,612**	**31,607**	**(5)**	**34,298**
NET OPERATING SURPLUS	**15,208**	**11,998**	**3,210**	**18,076**
Net operating margin	*32%*	*28%*	*5%*	*35%*
Interest Receivable and similar income	53	129	(76)	141
Net Interest payable & similar charges	(5,895)	(5,776)	(120)	(6,249)
STATUTORY SURPLUS	**9,366**	**6,353**	**3,014**	**11,968**

INVESTMENT	Actual £ks	Budget £ks	Variance £ks	Full Year Budget £ks
TOTAL CAPITAL INVESTMENT INCOME	**1,422**	**6,119**	**(4,697)**	**6,855**
Total Expenditure on Core Programme	28,633	30,106	1,473	32,816
New Build	9,927	15,669	5,742	16,970
Other Capital Expenditure				
Premises	191	1,865	1,675	2,035
IT	1,834	1,995	161	2,176
TOTAL CAPITAL EXPENDITURE	**40,584**	**49,635**	**9,050**	**53,997**
NET CAPITAL EXPENDITURE	**39,163**	**43,516**	**4,353**	**47,142**

Key highlights :

- Net operating surplus of £15,208k is £3,210k favourable to budget. Statutory surplus for the period to date is £9,366k, £3,014k favourable to budget. The key driver of the variance is higher grant income due to timing v budget together with lower expenditure from bad debts and running costs.
- Net Rental income is £582k favourable to budget, benefitting from the earlier completions at Sanquhar in March 2021. YTD Void losses represent 0.84% of gross rent. Garage rent is reported in Other income consistent with the other RSLs.
- Grant income to date is £2,458k favourable to budget. The budget was based on 12 completions at Sanquhar in the year which were recognised in March 2021 on early completion. Actual grant income relates to the 5 units at Monreith which were delayed from the prior year and Phase 1 (26 of 32 units) at Lincluden of £2.9m handed over in September.
- Other income is £175k favourable to budget driven by the Aids and Adaptations claim which total £557k received YTD. The bid for A&A was accepted at £604k which was £100k more than anticipated for the full year. A further funding application was submitted in P10. Total expenditure is higher than budget by £53k.
- Employee costs are £323k ahead of budget between direct and group services. The driver for this is an increased group services recharge following the launch of the new Customer First Centre and additional staff resources to help promote our new ways of working.
- Transformation costs relate to ERVR expenses and are £344k ahead of budget. The changes will help deliver cost efficiencies and our new ways of working in 2022/23.
- Running costs are £398k lower than budget between direct and group services costs, reflecting cost savings from the continuation of home working.
- Repairs costs of £9,604k are higher than budget by £342k with the timing of spend on FIT and other compliance activity offset by higher spend on reactive repairs as the waiting list following the pandemic continues to be addressed. The number of outstanding jobs now stands at 503 jobs, a reduction of 86% since the start of January 2022.
- Demolition costs relate to the buy-back of 3 flats and associated costs.
- £1,422k of grant claims have been received year to date in relation to Eastriggs. The budget assumed income would have been received for Lincluden, The Lincluden cash claims against cost were made in full in 20/21.
- Core programme is £1,473k lower than budget across all lines of expenditure. Mitigating actions have been put in place with the aim of delivering the budgeted programme for the year. Spend was £1.4m higher than budget in the month of February.
- New Build expenditure is £5,742k lower than budget, driven by lower levels of spend versus budget at Lincluden (£4.4m), Thornhill (£1.4m) and Nursery Avenue (£1m), offset by an over spend versus budget at Eastriggs (1.4m). Sanquhar was completed in 2021 and Lincluden had accelerated spend in Q4 of 2020/21.

1b Underlying surplus – P11 February 2022

Key highlights :

- The Operating Statement (Income and Expenditure Account) on page 2 is prepared in accordance with the requirements of accounting standards (Financial Reporting Standard 102 and the social housing Statement of Recommended Practice 2014).
- However, the inclusion of grant income on new build developments creates volatility in the results and does not reflect the underlying cash surplus/deficit on our letting activity.
- The chart below therefore shows a measure of underlying surplus which adjusts our net operating surplus by excluding the accounting adjustments for the recognition of grant income and depreciation but including capital expenditure on our existing properties.
- For the year to date an underlying deficit of £12,131k has been generated using this measure which is £2,029k favourable to budget. The variance is driven by lower investment spend which is projected to catch up in the current financial year and lower running costs.

DGHP Underlying Surplus -February 2022

	YTD Actual £ks	YTD Budget £ks	YTD Variance £ks	FY Budget £ks
Net operating surplus	15,208	11,998	3,210	18,076
add back:				
Depreciation	10,551	10,551	0	11,510
less:				
Grant income	(3,415)	(957)	(2,458)	(5,291)
Net interest payable	(5,842)	(5,646)	(196)	(6,108)
Total expenditure on Core Programme	(28,633)	(30,106)	1,473	(32,816)
Underlying surplus	**(12,131)**	**(14,160)**	**2,029**	**(14,629)**

DGHP

3. Period 11 – In House Repairs service (IHR)

Dumfries & Galloway Housing Partnership	YTD February			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £k's
INCOME				
Internal Subsidiaries	12,627	10,583	2,044	11,397
External Customers		-	-	-
TOTAL INCOME	**12,627**	**10,583**	**2,044**	**11,397**
COST OF SALES				
Staff Costs	5,102	4,613	(489)	5,060
Materials	1,422	1,396	(26)	1,500
Subcontractor & Other Costs	4,567	2,716	(1,851)	3,246
TOTAL COST OF SALES	**11,091**	**8,725**	**(2,366)**	**9,806**
GROSS (LOSS)/PROFIT	**1,536**	**1,858**	**(322)**	**1,591**
Margin %	12%	18%	-16%	28%
Overheads	**1,473**	**1,858**	**385**	**2,039**
NET (LOSS)/PROFIT	**63**	**-**	**63**	**-**

Key Comments:

- Income for the in house repairs service is £2,044k higher than budget which is driven by higher levels of spend on reactive repairs and voids.
- The YTD net profit of £63k reflects accruals for Home Group revenue and the higher level of activity through the service.
- Sub-contractor costs remain high due to City Building undertaking voids works along with high level of decoration works in voids which have been passed to sub-contractors. The in-house repairs team has made good progress in reducing the backlog of outstanding repairs.
- Discussions are currently taking place to agree the timing and handover arrangements for the in-house repairs team to re-commence the management of voids.

4. Period 11 – Repairs and Investment

Wheatley Group

Dumfries & Galloway Housing Partnership	YTD February			Full Year
	Actual £ks	Budget £ks	Variance £ks	Budget £k's
Reactive	7,622	5,881	(1,741)	6,261
Gas planned maintenance	752	1,196	444	1,296
Landscaping and cyclical maintenace	463	842	379	939
Compliance	830	1,343	513	1,413
Loss/(profit) on IHR	(63)	-	63	-
TOTAL	**9,604**	**9,263**	**(341)**	**9,909**

Major Repairs - Capital	YTD February			Full Year
	Actual	Budget	Variance	Budget
Core Programme	22,529	25,699	3,170	28,002
Capitalised Voids	3,790	2,658	(1,132)	2,900
Adaptations	1,280	740	(540)	814
Capitalised Staff	1,003	1,007	4	1,098
Fire Safety	32	3	(29)	3
TOTAL	**28,633**	**30,106**	**1,473**	**32,816**

DGHP

Repairs

- Overall repairs spend is £341k higher than budget. Within this reactive repairs costs are £1,741k higher than budget with the number of waitlisted jobs reducing from 3,806 to 503 an 86% reduction since January 2022.
- Landscaping and cyclical maintenance spend includes the costs of third party contractors providing environmental services up to June 2021 and the transfer of the service in-house.
- Gas servicing is reporting a favourable variance against budget with VAT savings reported now the service has been brought in-house and the savings of the contractors mark up. The budget was based on the costs in the prior year with no savings assumed.
- The in-house repairs service is reported a small surplus linked to the Home Group contract and the high level of activity through the service.

Investment

- Core investment spend is £1,473k lower than budget, the underspend has been reducing with action being taken to achieve the planned delivery of the 2021/22 programmes. Spend has been increasing in recent months and in the month of February was £1.4m higher than budget.

- Void works capitalised to improve recently vacated properties are £1,132k higher than budget. Key subcontractors have been engaged to assist with the completion of the works such as Powermac joinery and Bell Group in Carlisle. We are taking the opportunity to perform investment works that are due whilst the properties are empty.

5. Period 11 – New Build

Development Name	YTD February (£K)			FY Budget
	Actual	Budget	Variance	
Lincluden Dumfries	2,598	7,001	4,403	7,098
Nursery Avenue	3,079	4,124	1,045	4,366
Eastriggs	2,351	1,000	(1,351)	1,274
Monreith 3	266	332	66	332
Queensberry Brae Thornhill	26	1,419	1,393	1,703
Lochside Option Appraisals	4	-	(4)	-
Herries Avenue, Dumfries	16	-	(16)	-
Springholm	111	12	(99)	12
Main St. Glenluce	177	498	321	618
Catherinefield Farm	4	-	(4)	-
Curries Yard Heathhall	431	-	(431)	-
Johnstonebridge	78	12	(66)	12
Daar Lodge		-	-	-
Corsbie Road	5	58	53	116
Ashwood Drive	205	-	(205)	-
George Hotel	15	-	(15)	-
Completed PY	20	685	665	685
Total Cost	**9,386**	**15,141**	**5,756**	**16,217**
Capitalised Staff	541	526	(15)	574
Grant Income	1,422	6,119	(4,697)	**6,855**
Net New Build Costs	**8,505**	**9,549**	**1,044**	**9,936**
Capitalised interest				179
Total New Build Costs	**9,927**	**15,667**	**5,741**	**16,970**

Investment spend at end of February totalled £9,386k, £5,756k lower than the budget of £15,141k.

- Lincluden (SR/32) – Phase 1 handover (26 units) occurred on 6 September2021 and Phase 2 (6 units) will be in March 2022.
- Nursery Ave (SR/19) – The site start was achieved on 31st May 2021 and on programme for completion in September 2022.
- Eastriggs (SR/33) – Site start was achieved on 12th July 2021 and is on programme for completion in July 2022.

Future Developments – awaiting approval:

- Thornhill (SR/60) – SG and Council support the project. Meeting set with Planning and development partner (Springfield) for March to discuss planning conditions.
- Springholm (SR/47) – Pre-contract items progressing, discussions with Scottish Water and Transport Scotland underway to address key constraints. Planning application submitted as programmed in February 2022.
- Glenluce (SR/10) – Demolition tender approved by ET and Development committee in May. £166,595 (Exc. VAT) tender cost. Demolition works ongoing.
- Currie's Yard (SR/89) – PPIP was successfully extended in May 2021. Full planning permission granted in January 2022. Tender cost will be available in March. The Design team submitted to Planning the masterplan and desktop study of Catherinefield, initial viability assessment by contractor undertaken.
- Corsbie Road (SR/60) – Council liaising with developer partner over the access strip to the site owned by the Council. Town Centre Living Funding sought. Site design being reviewed to maximise layout.
- Ashwood Drive (SR/12) – Feasibility study completed and cost report prepared for mixed use housing and office hub proposals. Re-design continues. Stage 1 SI complete except for gas monitoring. Acquisition concluded in January. Demolition tenders closing at the end of February.
- George Hotel – Feasibility study finished to support Dumfries and Galloway Council exploration of redevelopment proposals. Council have been advised that this is not a project for DGHP.

6. Balance Sheet P11

Balance Sheet	28 February 22		31 March 21	
Fixed Assets				
Social Housing Properties		435,081		407,072
Other Fixed Assets		2,872		847
Investment Properties		11,010		11,010
		448,962		418,929
Current Assets				
Stock		1,509		1,414
Trade Debtors	*270*		*375*	
Rent and service charge arrears	*2,684*		*2,632*	
less: provision for rent arrears	*(1,473)*		*(1,093)*	
Prepayments and accrued income	*343*		*622*	
Other debtors	*698*		*391*	
Total Debtors		2,521		2,927
Due from other group companies		82		345
Cash & Cash Equivalents		50,482		70,022
		54,594		74,708
Creditors: within 1 year				
Trade Creditors	*(709)*		*(3,710)*	
Accruals & Deferred Income	*(10,307)*		*(4,548)*	
Grants	*(667)*		*(4,084)*	
Provisions	*(164)*		*(379)*	
Prepayments of Rent and Service Charge	*(797)*		*(660)*	
Other Creditors	*(732)*		*(424)*	
Total Creditors		(13,375)		(13,805)
Amounts due to Group Undertakings		(1,518)		(2,332)
		(14,893)		(16,137)
Net Current Liability		**39,701**		**58,571**
Long Term Creditors				
Loans		(188,662)		(188,688)
Loan interest		(2,559)		(2,114)
Grants		(9,121)		(7,742)
Pension Liability		(3,325)		(3,325)
Net Assets		**284,997**		**275,631**
Capital and Reserves				
Share Capital				
Revenue Reserve		99,163		89,797
Revaluation Reserve		185,834		185,834
Shareholders' funds		**284,997**		**275,631**

Key Comments:

- **Fixed assets** of £449m – representing investment works added less depreciation of existing assets. Other fixed assets have increased in value due to IT capital investment spend. The revaluation of fixed assets resulted in an increase to reserves of £35m at 31/3/2021.
- **Trade & other debtors –**the bad debt provision has increased by £380k year to date due to an increase in arrears. Net arrears have reduced due to timing of 4 weekly Housing Benefit receipt.
- **Stock** relates to repairs stock purchased from Saint Gobain and materials on site related to the investment program.
- **Cash at Bank** of £50.5m includes £25.0m which has been placed on 6 month deposit maturing April 2022. Remaining cash balances are being used to fund ongoing New Build and Investment expenditure.
- **Creditors: within 1 year** Includes
  - Amounts due to Wheatley Group and DGHP3.
  - M&G interest accrued and paid twice annually
  - Payroll is accrued monthly for second half of the month as pay date is 15th .
  - Grants reduction of £3.4m since year end reflects £0.5m released at Monreith and £2.9m released in September in respect of 26 of 32 units at Lincluden, with a further 6 under Phase 2 scheduled for March 2022.
  - Investment accruals linked to applications for payment.
- **Long-Term Creditors** This relates to
  - Capital loans of £188.7m.
  - The roll up of accrued interest on Allia loans not payable until end date £2.6m incurred since drawdown
  - Grant income received is deferred until the completion of new build properties

DGHP