

MINUTES OF BOARD OF MANAGEMENT MEETING HELD ON WEDNESDAY 27 NOVEMBER 2019 IN GRIERSON HOUSE, DUMFRIES

Members present: Bill Robertson (Chairman), Irene Clark, Maureen Dowden, John Henderson, Irene Clark, Heather Macnaughton, John McCraw, George Thorley and Michael Greaves Mackintosh.

In attendance: Alex McGuire (Interim Chief Executive Officer), Andy Ashcroft (Interim Director of Repairs), Jayne Moore (Director of housing Services), Jim Preston (Interim Director of Investment & Regeneration), Hugh Carr (Director of Finance), Eilidh Mowat (Company Secretary), Christopher Watt, (Head of Corporate Business), Steven Henderson (Group Director of Finance), Samantha Bett (Director of Treasury), Andrea Paterson (Indigo House Group), Derek Stewart (Indigo House Group), Kelsey Walker (Savills), Iain McAulay (Pinsent Masons), Kirsty McLean (Pinsent Masons).

1. Statement of conflict of Interest

John Henderson and George Thorley in respect of Item 9, as they are the applicants for the position of Chair of the development committee.

2. Apologies for absence

None

3. Minutes of Board of Management meeting of 22 October 2019

The Board APPROVED the Minutes of the Board of Management meeting of 22 October 2019

4. Board Action Tracker & matters arising

The Board AGREED the actions marked complete to be removed from the tracker. The Board requested that completion dates be added to all actions.

5. Chief Executive Update

The interim Chief Executive gave an update on the current notifiable events, the overwhelming positive response to the ballot and an update on the recruitment of the new Managing Director. The Board discussed the partnership implementation plan which is required to develop the actions flowing out of the partnership. The Board gave thanks to the Director of Housing Services and the whole team involved in the ballot for their excellent work. The Board further discussed the Stock Condition Survey. The Interim CEO reminded the Board that Savills had reported the costs of the Stock Condition Survey over the 30-year Business Plan period at £358m, excluding fees and VAT at 2019 prices. The Board noted that Savills had calculated this figure

using primarily DGHP outturn cost figures based on DGHP as a stand-alone entity (i.e. without any potential benefit from procurement savings as part of the Wheatley Group). The Board was further advised that the equivalent DGHP Business Plan allocation was £406m. This gave headroom of £48m in the Business Plan versus the projected SCS costs.

The Board were advised by the interim CEO that further review of the DGHP Business Plan identified that an error had been made in respect of an erroneous inclusion of VAT from year 11 onwards. Once this error was corrected, the revised DGHP Business Plan resulted in a like for like allowance of £361m (down from £406m) and reducing the headroom against the SCS from £48m to £3m.

The Board noted and agreed that steps had been taken to maintain some headroom in the plan and help facilitate the re-financing of DGHP, the SCS allowances (previously totalling £358m) have now been adjusted to show outturn Wheatley Group costs – reflecting the procurement savings and other synergies that DGHP can deliver as part of the larger Wheatley Group.

The Board discussed the position and noted the interim CEO's confirmation of a September 2020 deadline for the achievement of a 95% SQHS target.

6. **Proposed Wheatley Group Partnership Update including full partnership business case**

The Board discussed the partnership business plan, agreeing that we should, for the purposes of transparency, call the financial projections the 'business case'. The Board had a lengthy discussion on the proposed refinancing package, discussed the advice in the report on financial due diligence prepared by David Tolson Partnership, discussed interest rates and the level of debt per unit. The Board noted that there were some missing documents and asked for a copy of the Treasury Strategy to be circulated to the Board. The Board discussed the position with WFL1 Ltd, noting that there will be the option for DGHP to join WFL1 in the future, but the Board will have the opportunity to consider that proposal in detail at the time. The Board briefly discussed the options in that regard and the disadvantages of remaining outside the borrowing group, which would mean higher borrowing costs of funds.

The Board **NOTED** progress with the implementation of the partnership with Wheatley Housing Group, including conclusion of the financial due diligence carried out on Wheatley Group; and **APPROVED** the Partnership Business Case that will form the basis of developing the DGHP Business Plan for 2020/21.

7. **Partnership refinancing proposal**

The Wheatley Group Director of Finance gave a presentation to the Board on the current position with the refinancing of the Dexia loan. The Board received a recap on the funding and an update on the 4 key workstreams: Dexia prepayment, Lender consents, M&G private placement, RBS revolving credit facility (RCF). A large amount of security work has already been completed

and allocation of security complete. The Board did acknowledge that it is a risk that will remain.

The Board discussed the excellent rates of interest offered by the RBS Heads of Terms, noting the coming general election may have some impact on rates, which is a risk but there is a buffer in the Business plan.

The Board **NOTED** the progress of discussions with potential lenders to DGHP and the offers so far received (Appendix 1)

APPROVED the terms of the THFC consent to the partnership with Wheatley Group (Appendix 2);

APPROVED the terms of the draft Dexia consent and prepayment offer (Appendix 3);

APPROVED the Heads of Terms from M&G for a £114m private debt placement (Appendix 4), noting that Wheatley Group will be liable for the related legal fees on this transaction, even in the event that the loan is not drawn; and

APPROVED the change of external auditor from Scott Moncrieff to KPMG, to take place at the point DGHP joins the Wheatley Group

AGREED the draft form of minute and specifically, Item 1-9 listed therein.

8. In-House repairs business case

Andrea Paterson, Indigo House and the interim Director of Repairs gave a report. The presentation outlined the strategic analysis of the current repairs provision informing the business case, the proposed service delivery model including scope of works and integration with other DGHP teams, service commitments to tenants and the new IT system supporting service modernisation and next steps including day 1 considerations.

The Board highlighted the need to ensure that we drive a cultural change in terms of ensuring that we have a customer driven culture that puts customers at the heart of what we do and how it is done. Particularly, for the Morgan Sindall employees. The Board discussed the cultural change required and how that would be managed, noting that the Board will soon have sight of a detailed mobilisation plan. It is likely that there will be a two week initial period of downtime, to allow training and assimilation of staff. There will be a plan with contractors to backfill during that period. The Board agreed that the new service is an evolving process that can be tweaked as it progresses. The key element of the process is the scheduler who in real time can manage the process. DGHP will control the process and the new system will give us the intelligence to make changes where needed. The Board noted that the risk is slightly mitigated as a job line still exists in Orchard, therefore the repairs could be managed without Servitor and simply exist 'as is'.

The Board discussed the internet coverage across Dumfries and Galloway, agreeing that there are shortcomings across the area. The Board agreed that

an officer should engage with South of Scotland Economic Partnership (SOSEP) to influence change and perhaps to access sources of funding for this.

The Board **NOTED** and **DISCUSSED** the Full Business Case for the In-house Repairs Service; **AGREED** the proposed area-based service delivery structure and associated operating arrangements, including a dedicated voids team; **NOTED** the integration and alignment with other DGHP and Wheatley functions inherent to the success of the modernised in-house repairs service; **APPROVED** commencement of the recruitment of the Head of Repairs and the Health & Safety Manager as set out in the proposed service delivery structure; **APPROVED** commencement of the formal TUPE negotiations with Morgan Sindall regarding the transfer of the local workforce on 1st April 2020 to DGHP and to ensure continued performance/continuity of service during the transition period; **AGREED** that staff and other key stakeholders (including tenants and other service users) will be fully engaged and informed as appropriate; **NOTED** that a contractor's day has been arranged by the Wheatley Housing Group for December and that all Board Members are invited to attend (details will follow); **AGREED** commencement of the detailed mobilisation required to prepare fully for the new in-house Repairs Service between now and 1 April 2020; and **NOTED** the cost of implementation support is being met within the Wheatley partnership provision.

John Henderson and George Thorley left the meeting.

9. Appointment of Chair of Development Committee

The Board took a vote by secret ballot. On a majority of 5 votes against 1, John Henderson was **ELECTED** as Chair of the development committee.

John Henderson and George Thorley joined the meeting.

10. Finance Report

The Director of Finance gave a report. The Board discussed the finance report, noting that a detailed paper on the arrears analysis will come to Board in January, which will reconcile the information that members see in the performance report with the finance report. The Board discussed the need to make the finance report more prominent on the Agenda to ensure sufficient time for proper discussion. The Board requested an update on the digital strategy noting a paper will be brought in January.

The Board **NOTED** the deficit for the year to date of £808k; **NOTED** the commentary on the financial performance and projections; **NOTED** the loans balance at the end of March 2019 was £165m, and that net debt was £115.228m at 31 October; and **NOTED** the projected compliance with all existing lenders' covenants for 2019/20.

11. Performance Report to end of October 2019

The Board **DISCUSSED** and **NOTED** the content of the Performance Information Pack.

12. Demolition of garages

The Interim Director of Investment and Regeneration gave a report.

The Board noted that this paper had been brought to Board in terms of our current Asset Disposal Policy, all disposals have to be agreed by Board. The Board noted that work will be undertaken to amend our policy as matters of this nature should not come to Board. The Board asked for reassurance on the condition in which the site will be left, noting that the appropriate steps will be taken to ensure safety. The Board **AGREED** to demolish lock up garage sites at Summerville Avenue and Dunlop Road, Dumfries.

13. Strategic Risk Assessment

It was agreed this item would be considered as part of the risk workshop which would follow the meeting.

14. Draft Minutes of Audit Committee of 18 November 2019

The Board **NOTED** the Draft Minutes of Audit Committee of 18 November 2019.

SIGNED:

DATE: