LEEDS FEDERATED HOUSING ASSOCIATION

MINUTES OF THE BOARD OF MANAGEMENT MEETING held on 9th March 2023 (via Zoom)

Present: Kim Brear (KB) Chair
Claire Stone (CS)
Martin Warhurst (MWa)
Jaedon Green (JG)
Steve Dungworth (SD)
Innocent Moyo (IM)
Rob Young (RY)
Chris Simpson (CSi)
Robin Machell (RM)

In attendance:
Matthew Walker (MW) Chief Executive
Stephen Blundell (SB) Operations Director
Jason Ridley (JR) Finance and IT Director
Megan Henderson (MH) Head of Corporate Services (minutes)
Janine Mahoney (JM) Executive Assistant

Observing:

1	**Apologies and Conflicts of Interest** No apologies had been received. There were no additional conflicts of interest raised.	
2.	**23/24 Budget and Business Plan Operating Margin Target.** **22.195** KB noted the revised paper with the additional information. **22.196** JR introduced the paper and referenced the additional commentary linked with the waterfall graph. JR confirmed that there was more detail behind each of the elements of the graph if required and in particular the reduced rent. **22.197** JR confirmed that for the purpose of this report reference to ‘draft’ simply means that it is subject to approval. **22.198** JR clarified the difference between the waterfall graph and table and confirmed that the operating margin in the graph excluded disposals as required for the RSH calculation of Operating Margin whist the Operating Margin on the table included disposals. **22.199 Agreed Action: JR to ensure that the updated waterfall graph clarifies the above point when presented as part of the Budget paper on 28 March.**	**JR**

22.200 JR updated on Treasury matters and confirmed that Santander would formally complete tomorrow. **22.201** Commercially sensitive **22.202** The overall approach is being discussed with DTP and will be detailed in the TAP which will be brought to 28 March Board. **22.203** The stress testing is now underway, using the budget referred to in this paper and is likely to perform similarly to the mid-year stress testing. **22.204** KB thanked JR and noted that things had moved since the away day. With this change it is important that the Board and Exec are confident that the positioning is right and there is assurance in the assumptions being used. **22.205** MWa identified it is difficult to create projections for the future given the degree of uncertainly that exists in our operating environment. MWa confirmed that on reflection of the situation from where we were in February he is happy. The paper reflects the reality of where we are and what the sector is facing. MWa referenced the Global accounts at 31.3.22 which reported an average margin of 19% for y/e 2022 and which the Regulator indicated they expected to see decrease further in y/e 2023. 15.6% for y/e 2024 therefore doesn't feel unreasonable based on these results. **22.206** KB said it was helpful to get some wider context and confirmed the approach is about achieving the right balance and for the Board to have clarity and focus on what is being delivered and where the money is being invested alongside ensuring there is still capacity to deal with future uncertainty. **22.207** CSi asked about the changes since the last half year review and the relative impact of them and queried which had the biggest impact. JR reference the waterfall visual which outlined the biggest movements which include rent, maintenance, sales and staff costs in that order. JR confirmed that the reduced maintenance and staff costs enabled the figure of 15.6%. **22.208** CSi queried why the figures had changed from the away day. CSi sought clarification as to whether this was a result of changing situations or something we missed. JR confirmed that the information presented at the away day was prepared as scenarios as the full draft budget was not available at the time of the away day. In the past, following a similar approach, figures have not changed as much but this year there was a more significant change such as damp and mould cases and the significant revision to the development plan including more prudent assumptions. Lessons	

have been learned and revised timescales and a different approach will be developed to ensure that the full draft budget will be available for the January meeting in future years.

22.209 JG asked if the development information has become too prudent noting it would be preferable to get the development figures right and leave any resulting ongoing expenditure obligations in the budget for example maintenance. There are poor customer outcomes if forecasting is not correct. SB confirmed that this had been a difficult judgement, but it was not appropriate to bring a plan based on things that might not happen – the plan includes a realistic estimate of what we think will happen in a difficult market. We have recently experienced a contractor go into administration with few comparable competitors available to pick up the work, and this is an example of the turbulence which may limit our ability to deliver the development output we had previously assumed in the plan. SB confirmed the adjustments to maintenance related to non-core and discretionary items within revenue maintenance so there was no impact on longer term investment and would have no impact on services to customers. JG acknowledged the realistic development decisions and recognised the tough market.

22.210 CS asked for assurance that we still meet our social purpose. CS emphasized the need to preserve services and continue with planned maintenance and said it would be helpful to know this is not being impacted and the quality of services and homes is being protected. CS was supportive not to reduce front line teams as service delivery will not get easier and said that she didn’t think we would be out of kilter with others. CS gave her support for the proposal.

22.211 MW commented the reason for lower margin is what CS had highlighted in that we want to do all the things that were discussed at the away day and now have ability to do just that with changed covenants. It is the right choice. There is still a buffer of £1.8m against our tightest loan covenant and we are not stopping anything we planned to do. So, the reality is that our prioritising services to customers in the very reason that margins have reduced, which has only been possible because of our changed loan covenant.

22.212 JG said it was positive to see the plan is customer need led not margin led albeit assuring sustainability of covenants. KB added her reassurance that we are being responsible with the margin and still allowing a clear buffer.

22.213 RY built on points made and confirmed support for standing by the outcomes we want to achieve at the away day acknowledging the lower margin.

22.214 RY queried the in-year management of budget and asked about mitigations, especially if things were to deteriorate further. JR referenced the resilience plan which is brought to the July meeting which sets out a series of actions that could be taken depending on severity and confirmed that these were used in stress testing.

22.215 IM asked about the loan covenant and what would happen if Lloyds did not amend the covenant. JR responded that the Santander revised covenant gives substantial headroom. If they don't agree we have options with both bLEND and Santander. Santander will become the tightest covenant, but it will have significant headroom.

22.216 IM referenced the external impact on our circumstance and asked about mitigations. JR confirmed we would look at discretionary areas for mitigation in the first instance with the last resort areas being customer facing or compliance related. There are a number of smaller, discretionary things that we can do as well as the opportunity to raise funds through the sale of investment properties. JG confirmed that ARC have given mitigations detailed attention to ensure there is clarity they would genuinely be able impact financially and with least impact to customers.

22.217 SD added his support to the recommendation and proposal adding he was pleased to hear MW comment and felt this would have been helpful in the paper along with one or two other options to support contingency planning.

22.218 SD asked what margin was acceptable long term and what happens if margins then go below this. JR responded that in the state of flux that the sector is in it is very difficult to predict where the sector will end up, in the mid to longer term, beyond offering a view based on our own budget and business plan. He observed that so many things could impact the sector, but added it was hard to see that we ever would return to margins of 25% plus again as a norm.

22.219 MW added that our position may become the new norm, but without the knowledge of what others are doing we are having to set new parameters effectively 'blind' to any comparison, so our decisions must be based on what feels right for Leeds Fed taking into account the interests of our customers. MWa added that there is no straight answer. Margins could be much lower if we want to spend more on more services and are happy to scrape by but have no capacity to adjust course. Higher margins give an ability to respond to a crisis but that reduces the amount you can plan to spend in the budget. The challenge is to get the right balance between the two - it is a balance of maintenance of service and finances.

22.220 RM confirmed his support of the proposal. RM added that we must not lose customer focus or investment in properties as it takes longer to bring things back. 15% is realistic and appropriate. **22.221** JG confirmed his was comfortable with the margin recognising the priority being given to customer and tenant needs. 10-15% is where we should expect to be longer term. **22.222** JG asked the team to look at how to avoid £3m swing up and down shown in the graph, this is a level of volatility that has not been seen before. JG asked what we are doing to reduce volatility and what else could we do? JR replied that it is hard to know as the plan is built over multiple years and based on the best knowledge we have available each time it is updated. JR noted that development has been and is likely to remain the area that has the highest volatility, which is a reflection of the changes to the wider economy and its impact on the building sector. JR confirmed that he would work with the team to look at what else might be done to avoid unnecessary swings. JG added that development is a luxury and it's important we model / smooth / rephase / look at scale so we are not exposed to big swings which rating agencies would not look on favourably.	
22.223 Agreed Action: JR to review the degrees of volatility and what options there may be to reduce this.	JR
22.224 KB concluded there were some good questions and challenges around the proposed shift in the margin and priorities. It was clear there was some thinking needed around the timing of the budget process moving forward. KB thanked the Board for giving time to the discussion and the focus on striving to achieve the outcomes and priorities set as well as considering future resilience. KB said it was pleasing to be reminded about the ongoing stress testing and the mitigations paper due in July as this enables us to make confident decisions. **22.225** KB stated the options we have around treasury management put us in a good position and the focus ARC, Leadership Team and Board give to this give further reassurance. **22.226** JG asked if it was better to keep the parameter longer term at 15% rather than increase it the following year to 16%, acknowledging that this would only be used if was absolutely needed. MW responded that the business plan shows our financial position improving, but that given the uncertain operating environment more generally we had suggested only a small increase in the budget plan parameter. He added that adopting JG's suggestion, to keep the parameter at 15% but only use it, if necessary, was helpful. Board agreed this was a sensible approach.	

22.227 Board reflected on the focus on customer priorities and service delivery, the need to maintain the quality of homes against the backdrop of uncertainty. **22.228** Board asked for their thanks to be shared with the team for the work that has gone into preparing the paper. **22.229** Board approved a Budget target Operating Margin of 15.6% for 2023/24 (15.5% thereafter) and a Financial Parameter Operating Margin of 15% from 2023/24 to be reflected in the 2023/24 Budget and Business Plan and Finance Policy papers that will be presented on 28 March. There was no further business Date of next meeting: 28 March 2023.	