COVID-19 Briefing
Finance

Version one – 27 April 2020

COVID-19 Questions

SFHA is working with the Scottish Government and SHR to provide answers to your questions. Members can send questions to:

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COVID-19 SFHA Member Forum

We have created a private forum on Microsoft Teams for SFHA members to discuss the situation, ask questions, and share advice and information. If you would like to join please email:

enquiries@sfha.co.uk

COVID-19 Latest Information

Information is also collated and regularly updated on SFHA's dedicated Covid-19 web page:

www.sfha.co.uk/COVID-19

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COVID-19 Briefing – Finance

This document forms part of a series of briefings from SFHA regarding the Coronavirus (COVID-19). This particular briefing note covers the following topics:

- Our asks of lenders
- Concerns raised with Scottish Government
- Submission date changes and flexibilities requested of Scottish Housing Regulator
- SHR guidance for boards on AGMs, audited accounts etc
- New SHR monthly return
- SFHA data collection
- Assumptions for scenario planning
- Government support available to housing associations
- Furloughing
- Changes to off-payroll working rules – IR35
- SFHA rents position

Our asks of lenders

A number of SFHA members contributed to a list of asks/concerns in terms of flexibility for the sector as a result of the current crisis.

1. **Flexibility on timescales for submissions of covenant returns and annual accounts**
   Covenant returns are typically quarterly, within 45 or 60 days of the quarter end for most RSLs. For the final year-end covenant and annual accounts returns, these are normally to be provided within 180 days of the year end (end of Sept); flexibility to extend these dates has been offered already by a number of lenders and could be important to some RSLs who have resourcing issues in preparing accounts and completing audits.

2. **Deferral or reprofiling of capital repayments**
   For those RSLs who are tight for cash flow as arrears increase (which should not be very many but it could be an issue for some), then flexibility to reschedule capital payments (and potentially interest too) could be important.

3. **Waiving/deferring requirements to complete intrusive property surveys and valuations**
   These surveys and valuations are typically required every three years; if one was required as at 31 March 2020 this would be impractical. Lenders should reschedule the required date for such surveys/valuations in order to avoid default events being triggered. We know some lenders have informed landlords a desktop valuation is fine for now with a full valuation to be carried out when practicable.

4. **Security requirements**
   Where RSLs plan or planned to draw down funding, and security had not yet been put in place; lenders could accept a period of unsecured lending instead. Registers of Scotland is currently closed for business, and surveys and valuations can be difficult to obtain for the reasons noted above. This might be an essential requirement for those RSLs operating under a "build to secure" environment who do not have significant amounts of available charged stock to support borrowings.

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5. Facilitating access to new UK Government coronavirus (COVID-19)-linked lending schemes

Where an RSL wishes to access one of the newly announced UK government-backed schemes, such as the Covid Corporate Financing Facility, and existing RSL lenders have approval rights to prevent that RSL taking on new borrowing from other lenders, then these lenders should permit such access without lengthy credit approval processes which could delay access to essential liquidity and save RSLs money in interest costs.

6. Extending maturities on soon-to-expire facilities

Much of the sector has taken on bank Revolving Credit Facilities (RCFs) in recent years, and these tend to be shorter dated (e.g. three–five years). Where these facilities are due to mature, lenders should consider extending the availability period to RSLs without lengthy credit approval processes and at reduced or nil arrangement/extension fees.

7. Flexibility on covenant levels

The financial profiles of RSLs will experience some volatility over the next 12-18 months as they experience an inevitable increase in arrears, reduced maintenance/investment spend in 2020/21 and then (hopefully) a pick-up in 2021/22. In 2021/22, many RSLs may be looking to address a "catch up" requirement in terms of repairs and investment work not done in 2020/21, but the many RSLs with an "EBITDA MRI" interest cover covenant may find themselves unable to do this without breaching covenants. Lenders should be prepared to reprofile the "MRI" element of such interest cover covenants, and indeed potentially the whole profile of the covenant itself (e.g. allowing a period with 95% or 100% coverage rather than 110%+).

From SFHA and SHR's initial discussions with the lending sector, all lenders are emphasising that any RSL that has issues with complying with any aspect of its loan agreement because of COVID-19 should contact them immediately. Lenders are unlikely to make broad statements about how they will operate due to the differences in agreements. It is therefore important RSLs continue to work on the basis they need to comply with loan agreements. However, lenders we have spoken to have stressed they don't wish to create problems and will look for common sense pragmatic solutions to issues that arise.

The key message is talk to your lender and lead regulator if you anticipate problems in complying with your obligations under any loan agreements.

UK Finance shared SFHA members' concerns with their own membership and have responded to confirm funders are ready and willing to help and would encourage SFHA members to submit their revised business plans and stress test results to their lenders as early as possible to at least start a dialogue regarding what might be needed to support them through any pressure points.

The Scottish Housing Regulator has also been in touch with UK Finance and lenders to reassure them the sector continues in to be good financial health with good levels of liquidity, although clearly some changes in cashflow behaviours will be seen as rent arrears and other pressures increase.

UK Finance will continue to engage with SFHA as the situation unfolds in the coming months and are keen to be involved in timely thinking and action on the way back to normality in the period beyond.

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Concerns raised with Scottish Government

1. Associations are busy revisiting their budgets for the new financial year as well as their longer-term business plans. This is to take into account changes in spending, such as postponement of development and non-urgent maintenance during the current crisis, to allow them to model the impact of any reduced rental income. Initial modelling will consider the impact on rental income over the next 12 weeks. It is currently too early to see any trends, however, some associations have determined the lost rental income from tenants who usually pay in cash and are not able/ confident in using phone or online methods, will see rental income down significantly, however, the full impacts will not be known until next year. There is also a concern over new build units which will not be either completed or handed over this year resulting in a reduction in expected income. For some associations, this can be hundreds of units this year alone. An additional insurance premium is also due on completed new build properties which are lying empty.

2. Given that the Scottish Government has now announced a fund for private landlords who experience difficulty securing rent, what support is it considering for the social housing sector? With the ongoing pressure to keep rents low, a build-up of arrears can only be recouped through an association's main source of income, rents. It's vital the Scottish Government pledges financial support to associations, in addition to the support offered to tenants by the UK and Scottish Governments.

3. There are no signs of cashflow problems amongst the many members SFHA has spoken with. This is partly due to the temporary reduction in services and the resultant reduction in spending over the short term. Associations are in some instances aiming to continue to pay contractors even where services are not currently being carried out. This is to ensure the viability of these contractors in the longer term and is on the understanding that all works will be completed post-lockdown. This applies to non-essential services such as ground maintenance etc. However, associations with no cashflow issues believe it exempts them from applying for any of the government loans – such as Scottish Government Third Sector Resilience Fund, Scottish Government Supporting Communities Fund, Scottish Government Wellbeing Fund and Community Response, Recovery & Resilience Fund. We are seeking clarity on this issue.

Issues raised with Scottish Housing Regulator (SHR)

There is a real concern about audits being carried out on time to meet requirements. Gathering the required information is taking associations longer due to working from home arrangements and levels of staff absence due to illness. As a result, some year-end tasks will be delayed, such as stocktakes. Those with audits due in May and June have been in touch with their auditors to request future dates but given that everyone is in the same situation, there is often no availability until September. With the need for committee then Board approval and then time for papers to be submitted to an AGM, accounts would not be signed off until the end of October at the earliest. This would result in AGMs and filing dates having to be shifted beyond the date required by SHR, Companies House and lenders. We have discussed this with SHR and have since asked the Scottish Government and opposition parties to support the sector with a temporary legislative change. This would see a one-off, three-month extension to the current deadline required by the Housing (Scotland) Act 2010 through the next round of emergency coronavirus legislation due to go before the Scottish Parliament shortly.

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Changes to submission dates to SHR

On 18 March 2020, SHR announced it was postponing the publication of updated Engagement Plans planned for 31 March 2020 for all landlords other than for the most critical cases. This is to allow landlords and the regulator to focus on the most serious existing risks or those that emerge from the current pandemic.

SHR is also extending the timescales for all landlords to submit the Annual Return on the Charter and for RSLs to submit the Five-Year Financial Projections (FYFP) and the Loan Portfolio (LP) Return to the end of July. It will keep this date under review as the current situation develops.

SHR guidance for boards on AGMs, audited accounts etc.

The Scottish Housing Regulator published advice for RSL governing bodies on 23April 2020 which aims to support board members in their work during the coronavirus pandemic. It covers questions which governing body members have asked the Regulator including what to do if a governing body is unable to meet, if membership falls below the minimum required and if an RSL is unable to hold its AGM. The advisory guidance can be found here.

New SHR monthly return

The Scottish Housing Regulator contacted all social landlords on 15 April 2020 about a new monthly landlord information return to help them understand the impact of the coronavirus (COVID-19) outbreak on landlords' services.

SHR is working with the Scottish Government and the newly formed Social Housing Resilience Group (SHRG), which was convened by SFHA, to understand the impact of the pandemic and where support is needed.

To get a clear picture of the impact of the pandemic on social landlords, tenants and other service users, SHR has agreed to provide regular reports to the Scottish Government and the SHRG. This will help them to understand the scale and nature of disruption and to plan co-ordinated responses.

The information return will ask for a small amount of information on core areas including rent arrears, empty homes, lettings and staff absence. The regulator will ask landlords to submit the first information return by Thursday 7 May 2020. Returns will be monthly until the impact of the pandemic reduces.

The Regulator will share aggregate data with the Scottish Government and the SHRG, but not individual submissions.

The template is not yet available, further details can be found here.

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SFHA data collection

Further to the SHR information return, SFHA will also ask members to contribute data on a number of indicators which will allow us to make the case for financial support for the sector from government.

Thanks to members' input on determining the key indicators, SFHA intends to collect the following data from members:

- Arrears percentage
- Void loss percentage
- Percentage of tenants on UC/HB
- Bad debts
- Overhead costs as a percentage of turnover
- Average interest rate for average cash held
- Average interest rate on loans
- Percentage of loans with fixed rates
- Interest cover for standard covenant
- Net profit as percentage of turnover
- Sickness absence
- Average cost of emergency repairs
- Number of staff furloughed
- Percentage of staff time on backlog jobs

This information is vital in our efforts to provide the evidence the Scottish Government needs in order to determine what financial support might be offered. SFHA is doing all it can to gain a commitment for financial support so that any increases in rent arrears and bad debts are not passed on to tenants down the line.

Support is being made available to private landlords; your data will help us make the case for a package of support for RSLs.

Once the form is ready, SFHA will be in touch with further details.

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Assumptions for scenario planning

A number of different approaches have been taken across the sector in terms of the assumptions used for scenario planning. SFHA does not promote any assumptions over others and recognises different members will be impacted in different ways due to the varying circumstances they operate under.

Some of the common assumptions and actions shared with us by members are outlined below:

- Lockdown to last 6 months, but a 12-18 month period for services etc. to normalise due to changes in budgets and the catch up of services required.
- Doubling of bad debts and voids this year.
- Reduced spend on maintenance and development is helping with cashflow.
- The furloughing of some staff is also reducing costs.
- Members have been examining the number of tenants on UC/HB as there is some belief this rental income is in some way protected. Associations have also been looking at the history of tenants who have been on and off UC/HB support, there is an assumption many of these tenants will sign up for UC again so their rental income should be somewhat secure after an initial delay of around 3 months.
- Levels of arrears have been stress tested at percentages up to 30%. Members are determining at what level of arrears they will have to implement reduced services or other cuts. Decisions need to be made on what this means for staffing levels.
- Budgets have been varied to reflect only emergency repairs being carried out, all component replacement (e.g. kitchens, bathrooms and windows) cancelled this year and non-essential works postponed (fencing and painting etc.).
- Associations are exercising caution on using reserves to cover losses in cash terms as there is a possible impact on covenant compliance.
- The backlog of jobs will take a considerable amount of time to complete. Associations are not able to take on extra staff to support with this, it is understood there will be a sector-wide shortage of repair and development staff.

SFHA remains interested in hearing from members in relation to their own assumptions, please email **Shona Mitchell, Policy Lead for finance**, at smitchell@sfha.co.uk

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Government support available

Coronavirus Job Retention Scheme	
Purpose	All UK employers with a PAYE scheme will be able to access support to continue paying part of their employees' salary for those employees that would otherwise have been laid off during this crisis.
Eligibility	All UK wide employers with a PAYE scheme that was created and started on or before 19 March 2020 will be eligible – this includes businesses and charities. HMRC will pay employers a grant worth 80% of an employee's usual wage cost, up to £2,500 per month, plus the associated Employer National Insurance contributions and minimum automatic enrolment employer pension contributions on that subsidised wage. The scheme will cover the cost of wages backdated to 1 March 2020 and is currently open until the end of June but will be extended if necessary. This scheme applies to employees who have been asked to stop working, but who are being kept on the payroll, otherwise described as 'furloughed workers'. Furloughed employees must have been on your PAYE payroll on 19 March 2020, and can be on any type of contract, including: full-time; part-time; agency contracts; and employees on flexible or zero hours contracts. Please note, HMRC retain the right to retrospectively audit all aspects of your claim. **Full details can be found here**.
How to apply	The online service which will be used for claims is now open and can be **accessed here**. You will need to designate affected employees as 'furloughed workers,' and notify them of this change. Changing the status of employees remains subject to existing employment law and, depending on the employment contract, may be subject to negotiation. When the online portal is live, you will need the following information on employees: your ePAYE reference number, the number of employees being furloughed, the claim period (start and end date), amount claimed (per the minimum length of furloughing of three weeks), your organisation's bank account number and sort code, a contact name and telephone number for the responsible person at your organisation. **A further step-by-step guide can be found here**.

Statutory Sick Pay (SSP) Relief Package	
Purpose	Small and medium-sized employers will soon be able to reclaim Statutory Sick Pay (SSP) paid for absence due to COVID-19.
Eligibility	UK businesses with fewer than 250 employees (as of 28 February 2020) are eligible. This relief is a refund which will cover up to two weeks' SSP per eligible employee who has been off work because of COVID-19. Employers are required to maintain records of staff absences and payments of SSP, however, employees do not need to provide a fit note from their GP. If evidence is required by an employer, those with symptoms of the virus can obtain an isolation note from NHS 111 online and those who live with someone with symptoms can get a note from the NHS website.
How to apply	This scheme is currently being developed by the UK Government. There is no known date for its implementation or cover period. This briefing will be updated once additional information is available.

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Deferral of VAT	
Purpose	Deferral in VAT payments for a period of three months.
Eligibility	All VAT-registered UK businesses are eligible and the deferral will apply from 20 March 2020 until 30 June 2020.
How to apply	No application is required as this is an automatic deferral process. Businesses are not required to make VAT payments normally due with VAT returns during this period. You will be given until the end of the 2020-21 tax year to pay any liabilities that have accumulated during the deferral period. VAT refunds and reclaims will be paid by the government as normal.

The UK Government has made a business support finder tool - covering loans, tax relief and grants – available online. You can access this here.

Furloughing

In addition to the practical information on furloughing outlined in the table above, SFHA would like to share some feedback from members on the issue.

A number of members have already taken the decision to furlough staff. The amounts vary up to 50% of staff.

The types of role mentioned include, but are not limited to: non-essential maintenance staff, programme management, business transformation, IT, environmental, governance, administration, allocations, community regeneration, community involvement, supported housing, development, adaptations, contract supervisors, compliance staff, cleaners, HR, caretakers and front of house.

Different associations are taking different approaches, with some redeploying staff to other areas where possible and others have asked staff not delivering frontline services to work on longer-term projects and complete backlog tasks.

Some have stated they believe work is important for focus and mental health, so are considering the option of rotating staff on and off furlough for periods of three weeks which is permitted by the UK Government scheme.

There are a number of staff at most associations who have requested to be furloughed due to childcare requirements.

Most members who have been in touch plan to cover the additional 20% of staff salaries to ensure they receive full pay while furloughed.

There have been some different views across the sector and by auditors as to whether the furlough grant is taxable due to the additional complexity of charitable status for many associations. SFHA has contacted HMRC for clarification and will share this in due course.

SFHA hosted a government furlough scheme member webinar on 21 April 2020. Marianne McJannett, from TC Young Solicitors, outlined the key elements of the scheme and particular considerations for Registered Social Landlords, including: practicalities when furloughing staff, the legal and regulatory implications, any ethical considerations and if there are any types of staff where it would be most appropriate. You can find the recording here.

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Rental income

Following the introduction on Tuesday 31 March 2020 of the [Coronavirus (Scotland) Bill] (which was given Royal Assent on 7 April 2020) to the Scottish Parliament, SFHA made the following statement in relation to rental income:

"SFHA agrees with the Scottish Government that evictions should be suspended for those experiencing financial hardship caused by the coronavirus outbreak. This is absolutely the right thing to do in order to support people who are struggling financially.

"We welcome the measures that are being put in place for evictions in relation to anti-social and criminal behaviour as it is vital that housing associations can put the safety and wellbeing of those affected by such actions first and take appropriate steps to deal with this.

"Rental income is vital for social landlords. It allows them to provide support and services for tenants and to carry out essential repairs and maintenance work. These frontline services are needed to ensure the health, safety, and wellbeing of tenants, and it is critical that they can continue during the coronavirus outbreak.

"It is crucial tenants who are able to do so continue to pay their rent. Social landlords have always worked hard to help their tenants to manage their rent through tenancy support, welfare advice and financial inclusion services – and they will continue to do this. Housing associations will work with tenants to ensure they are aware of, and accessing, the social security support, such as Universal Credit, for which they may be eligible.

"However, we have alerted Scottish Government to the likely need for financial support for housing associations and co-operatives that experience income loss due to a reduction in rent payments. This support is more important than ever as we all work together to minimise the impact of the crisis on the most vulnerable people in our communities, many of whom live in social housing."

Changes to off-payroll working rules – IR35

Due to HMRC's confusion surrounding the status of Scottish associations following the implementation of Freedom of Information in November 2019, SFHA asked HMRC if the extension granted to the 6 April 2020 deadline for other sectors could be applied to housing associations in Scotland. The response is below:

1. The existing rules for off-payroll working in the public sector are set out at Chapter 10, Part 2 of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003. These rules are largely based on inclusion in the Freedom of Information Act (FOIA) and Freedom of Information (Scotland) Act (FOISA). The effect is that entities that come within scope of FOIA or FOISA become subject to the off-payroll working rules from the date on which the off-payroll legislation came into force, or the date on which they become subject to the relevant Act, if later. In the case of Scottish Housing Associations, the effective date for inclusion in FOISA is 19 November 2019, and consequently the same effective date must apply for inclusion in the off-payroll working rules.

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2. HMRC does not have the power to grant such an extension, which would require a legislative change. Nonetheless, HMRC has considered the position and concluded that such a change could not be recommended for the following reasons:

    a. Fairness and consistency: Since the off-payroll working rules for the public sector were introduced on 6 April 2017 there have been over 30 entities or classes of entity that have been brought into scope of FOIA/FOISA and therefore required to apply the rules from the date of their inclusion. Introducing a transitional period at this stage would lead to a position of unfairness for those who have been required to operate the rules since the date of their inclusion in FOIA/FOISA

    b. Operational reasons: The extension to the wider off-payroll working rules applies to medium and large organisations outside of FOIA/FOISA. These provisions are new and separate to the provisions which already apply to your members based on the legislation enacted for the public sector in 2017, which continue to operate for most FOIA/FOISA bodies and will not be suspended during the current pandemic.

Implementing the off-payroll working rules

HMRC's priority is supporting customers to comply with the rules, in particular those who may be engaging contractors for the first time since coming within the scope of the rules.

There is extensive support available including:

- HMRC's **CEST tool** is available to help associations make status determinations for their off-payroll engagements. It is recommended this is used alongside the **accompanying guidance**.
- If associations need more help on how to answer the questions within the tool, they can contact HMRC's Employment Status and Intermediaries helpline:
    - Telephone: 0300 123 2326
    - Email: **ir35@hmrc.gov.uk**
- Any other support can be sought by emailing the HMRC housing association inbox at: **ha_misc.pbg@hmrc.gsi.gov.uk**

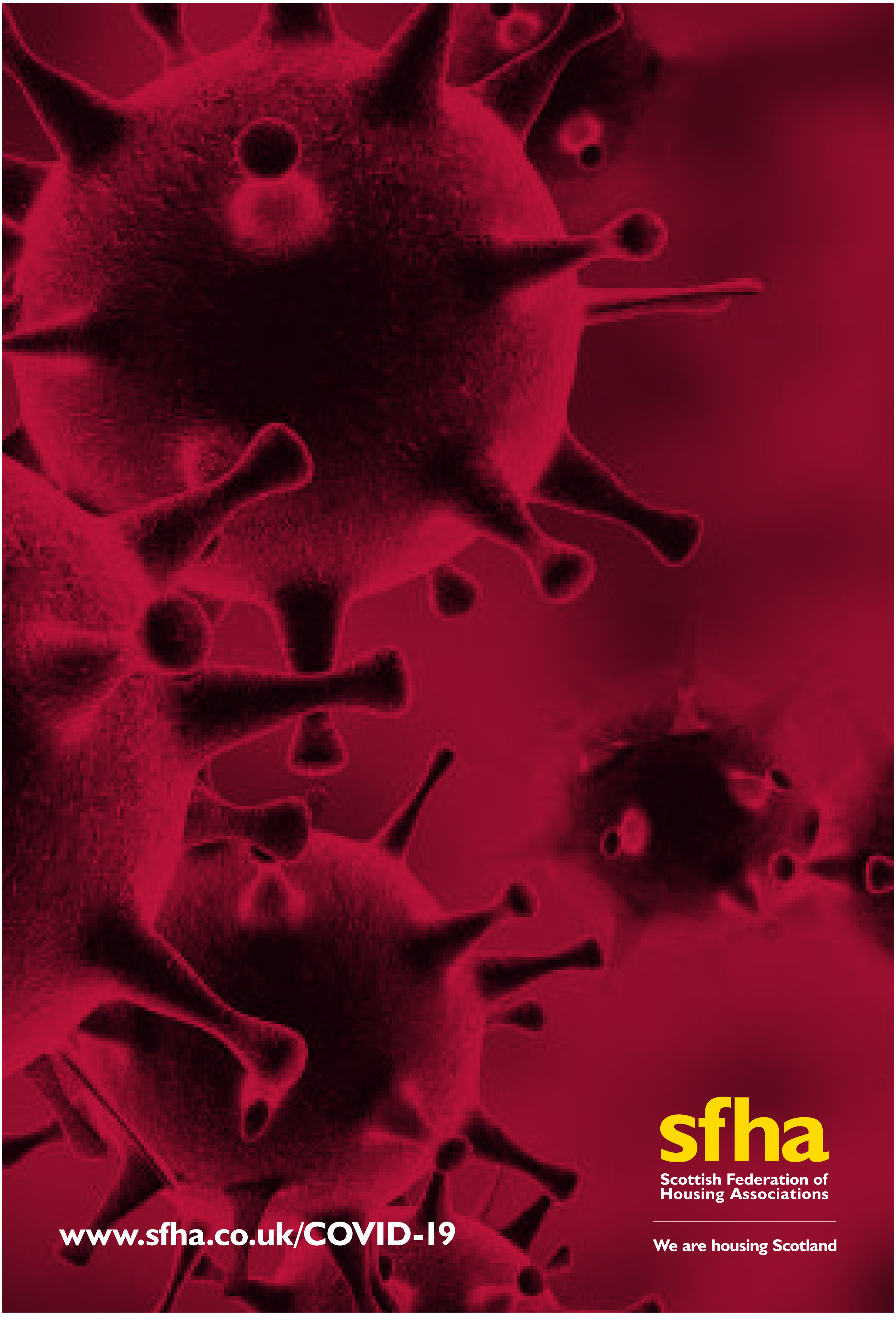
Online forum for finance staff

An online platform using Microsoft Teams has been set up to allow finance staff to talk to each other about issues being faced in light of the current crisis.

The space is already being used to share challenges, concerns and experiences. It is a collaborative space to learn from each other, seek advice, share information, offer support, canvas opinions and agree common approaches. SFHA colleagues are also using it to share insight, useful links and guidance, and offer support where we can.

If you are a member of the finance team at an SFHA member organisation and would like to join the online finance forum group, please send your details to **enquiries@sfha.co.uk**

Please note, you do not require any software or to download anything to access this forum and can use a web browser. If you have any issues, please email **SFHA Digital Lead Gary Dickson** at **gdickson@sfha.co.uk**



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