

---

## MINUTES

Meeting of: Scottish Futures Trust Investments Limited – Board

Date & Time: Monday 18 March 2024, 12 noon to 1pm

Place: Thistle House, 91 Haymarket Terrace, Edinburgh, EH12 5HE

Present: Ian Russell (IR) (Chairman)  
Bill Matthews (BM)  
Pauline Mills (PM)  
Stella Matko (SM)  
Nick Rowan (NR)  
Stephen Slessor (SS)  
Graham Watson (GW)  
Peter Reekie (PR)

Apologies: none

In attendance: Ruth Hann (RH)  
Neil Rutherford (NR)  
Caroline Whyteside (CW)  
Liz Petrie (minutes)

---

### FORMALITIES

#### 1 Apologies

There were no apologies.

#### 2 Declaration of Directors' Interests

There were no new declarations of interest.

#### 3 Minutes of previous meetings

The minutes of the meetings of 4 September 2023 and 16 November 2023 were noted and agreed as correct records.

#### 4 Action tracker

The action tracker was noted. It was noted that the hub procurement risk continues to be monitored through the Board Special Committee: Conflicts.

### MONITORING

#### 5 Investment Review

The Board noted the Investment Review paper covering: the investment performance of hub DBFMs; hub company performance; and housing investments.

**Investment performance of DBFMs** – RH provided a high level summary of the paper highlighting that the forecast income for the current financial year is £1.8m. She advised that the performance of the portfolio remains stable with a current IRR of 10.52%.

The Board noted that of the 41 projects, nine have ongoing events that are being closely monitored and two are 'on watch' in distribution lock-up. RH outlined the issues which

---

have led to the projects being on watch and described the ongoing work to bring them out of lock up.

The Board noted that the DBFM companies take latent defect risk 12 years after completion of construction and RH confirmed that with the earliest project now 10 years into operation consideration is being given on how best to mitigate any residual latent defect risk across the portfolio.

RH highlighted also the work taking place across the portfolio to support the transition to net zero with better monitoring and improvements being made in energy performance.

The Board noted that it has been confirmed that a further six projects should be eligible for Deemed Lease Premium relief. The Board was advised that this has already been successfully claimed for the Levenmouth project where the dividend forecast has increased as less tax is being paid. RH confirmed that the eligible projects include Wick where the relief would provide a mitigant against the currently projected shortfall of repayments to the Company.

**hub company performance** - The Board noted the update on the hub company performance. [REDACTED]

[REDACTED] The Board discussed the Scottish Government's recent announcement of its decision to halt NHS construction projects for two years and the impact on the hub pipeline. RH was asked to check if the impact of the recent announcement is reflected in the pipeline value reported.

*RH to check if the impact of the recent announcement is reflected in the pipeline value reported.*

The Board noted that with constraints on the availability of capital and resourcing in the public sector, participants are increasingly turning to the hub companies to undertake more front-end strategic work. RH described some of the front-end activities being undertaken including place-making and estates planning. The Board noted that the extent of this activity varies across the five hub territories. RH undertook to provide further detail post-meeting on the range of activities undertaken and income generated from this work.

*RH to provide further detail post-meeting on the range of activities being undertaken as part of the front-end strategic work.*

The Board noted and discussed the update on the current performance and the short and medium term outlooks for each of the five hub companies including cashflow forecasts with 'secured income only' downside sensitivity scenario modelling for each company.

RH highlighted that the working capital loan in place with hub South West is expected to be repaid in September 2024. The Board further noted that the hub West loan balance is currently £77.5K reducing by £10k per annum, until March 2028 when the balance becomes due and payable.

**Housing investments** - The Board noted that there are currently six active investments in housing LLPs, totalling £6, the key risk for the Company in its housing investments being

---

reputational rather than financial. NR confirmed that three investments remain in National Housing Trust (NHT) LLPs and three are in Housing Delivery Partnerships (HDPs).

NR advised that to date, the cost-of-living crisis has not had a significant impact on LLP incomes and this will continue to be monitored in the coming period.

NR described activity in the year on managing exits from National Housing Trust (NHT) LLPs to secure the homes for long-term affordable rent including the purchase of units by Edinburgh Living MMR LLP for mid-market rent. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

NR recalled that the Board had previously given in principle agreement to the Company investing in Home Ownership Made Easy (HOME) partnerships and advised that progress on this and new Housing Delivery Partnerships (HDPs) has been slower than hoped. He advised that in principle approval has now been received by West Dunbartonshire Council to form a limited liability partnership with the Company to deliver the HOME initiative and an HDP and it is hoped to make progress on this in the coming period.

[REDACTED]

[REDACTED]

[REDACTED]

The Board noted that the corporation tax position for the NHT and the HDP LLPs is being reviewed and that an update will be brought to the Board in September.

The Board acknowledged the significant need for more housing development in Scotland and discussed the challenges and barriers to achieving this. The Board acknowledged and discussed the potential opportunity for the Company in innovative financing and, given the prominence of the issue, recommended that the profile of housing be considered in the development of SFT's new corporate plan.

## **6 Risk Register**

The Board noted the SFTi risk register identifying key risks, their impact and probability of occurrence both before and after mitigation.

The Board noted the changes to the risk assessments since the last review. The introduction of a separate risk in relation to housing quality was highlighted as it is considered to differ from the risk in relation to hub developments quality. RH further highlighted the reduction in the assessment of the risk relating to working capital loans with full repayment of hub South West's loan expected in November 2024.

GW suggested that an indication of areas of risk could be highlighted within the investment review paper and RH agreed to review how this could be incorporated for the next reporting period.

*RH to review inclusion of risk indicators within the investment review report.*

---

The Board noted that reputational risk is not separated out as an individual risk within the register but is considered as one of the impacts along with business impact and outcomes impact. The Board requested that consideration be given to indicating within the register which of these impacts applies to each risk.

*Consideration to be given to indicating area(s) of impact relevant to each risk.*

## **DECISION**

### **7 Dividend**

The Board noted the report, seeking approval for SFTi to pay a dividend. The Board noted the forecast outturn for SFTi for year ending 31 March 2024 together with the key financial assumptions.

CW confirmed that the indicative fair value calculation was carried out using the September 2023 operational models and that the discount rate assumption for forecasting the fair value of subordinated debt and equity was consistent with the previous year at 8.5%.

The Board noted that as in previous years the dividend has been assumed at approximately 75% of net profit for the year.

The Board noted the slight increase to the management recharge relating to employment costs. The Board discussed the proposed recharge and the audit process to which the recharge is subject. The Board requested that the Company's tax advisors be asked to review the reasonableness of the management charge.

*CW to request that the Company's tax advisers be asked to review the reasonableness management recharge.*

The Board approved the proposed dividend of £695k for the year ended 31 March 2024.

### **8 Review of Investment Management Policy**

The Board noted the Investment Management Policy. RH outlined the proposed changes to the Policy including changes in the organisational structure and roles as well as to reflect the valuation of both equity and subordinated debt based on fair value.

RH confirmed that an external review of the portfolio model is undertaken by SOLV IRR.

The Board approved the Investment Management Policy.

### **9 AOB**

There was no AOB. The meeting ended at 12.55pm.