

MORhomes plc



Social Bond Framework

October 2018

Introduction

MORhomes' mission is to support the provision of Social and Affordable Housing in the United Kingdom by acting as a central borrowing vehicle designed to facilitate access to the capital markets by not-for-profit, registered social housing providers.

The sole purpose of MORhomes is to raise finance for the social housing sector, with no business operations other than the incurrence of financial indebtedness and on-lending to the social housing providers.

To date, 60 housing associations have confirmed that they will become MORhomes shareholders, all of which are not-for-profit, registered providers of social housing¹. They account for over 30% of the sector with around 900,000 homes, £24bn of debt and annual borrowing needs of over £1.5bn.

Regulatory Framework

Registered providers of social housing must comply with a regulatory framework established by the UK Government.

The regulatory framework for social housing in England from 1 April 2015 is comprised of:

- regulatory requirements – obligations on registered providers, including the 'rent standard' for social and affordable housing and 'consumer standards' for the provision of the housing service;
- codes of practice – a code of practice can amplify any economic standard to assist registered providers in understanding how compliance might be achieved; and,
- regulatory guidance – this provides further explanatory information on the regulatory requirements and includes information on how the regulator will carry out its role of regulating the requirements.

Further information regarding the relevant regulatory framework is available at the link below².

In addition, the UK Government's Social Housing Green Paper – 'A New Deal for Social Housing'³ published on 14th August 2018, reiterates the Government's ambition to increase the average number of homes delivered each year to 300,000 by the mid-2020s, and support for the building of more social housing. The Green Paper also discusses the partnerships with housing associations to boost the supply of new affordable homes by considering the benefits of providing funding certainty to some housing associations over a longer period.

¹ Note: Shareholders of MORhomes plc are currently exclusively comprised of registered, not-for-profit, Housing Associations. The constitution allows for other types of shareholders (for example, if the Government was to put in some equity) but any such shares are restricted to 25% of voting rights and would have to be approved by the Board. There are currently no plans for any such investors.

² <https://www.gov.uk/government/collections/regulatory-framework-requirements>

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733635/A_new_deal_for_social_housing_print_ready_version.pdf

Identification of Target Populations

Presently, the National Planning Policy Framework⁴ and planning guidance ask each local planning authority to define a Housing Market Area, and to identify the 'objectively assessed need' for market and affordable housing within this. Planning guidance sets out a recommended method for doing so, using the latest National Statistics for projected household formation as a starting point. This is then adjusted to take account of a range of issues, including affordability, employment growth and market signals.

The methodology for determining housing need for a given target population is set out by the UK Government⁵. The methodology involves the setting of a baseline using national household growth projections, for the area of the local authority in question. Taking the most recent projections, the projected average annual household growth over a 10-year period is calculated. An adjustment to take account of the affordability of the area is then performed using the most recent median workplace-based affordability ratios⁶, published by the Office for National Statistics at local authority level.

Housing Associations develop new 'social' or 'affordable' housing to meet the identified local need, working in conjunction with the local planning authorities.

New housing and existing housing that becomes vacant is let to tenants in housing need, being allocated via waiting lists that are generally maintained by the local authorities, using a combination of deprivation and housing needs criteria to prioritise applicants. Typically, the demand is many times the available vacancies.

Rationale for Social Bond Issuance

Overcoming global development challenges and advancing objectives for public good require significant investment in projects that bring about positive social impact. Many of these investments are expected to be financed by debt instruments including bonds. Committing a section of the bond market to the financing of projects with expected positive social outcomes will channel existing and new pools of liquidity to address global challenges such as those exemplified in the Sustainable Development Goals^{7,8} ('SDGs').

The UK Prime Minister has identified the current status of the housing market as one of the greatest barriers to progress in Britain today, noting the challenges of low housing supply and unaffordability⁹.

⁴https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/734407/National_Planning_Policy_Framework_print_version.pdf

⁵https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728247/How_is_a_minimum_annual_local_housing_need_figure_calculated_using_the_standard_method.pdf

⁶<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoworkplacebasedearningslowerquartileandmedian>

⁷ The Social Bond Principles – Working Towards a Harmonized Framework for Impact Reporting for Social Bonds

⁸ <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

⁹ Department for Communities and Local Government 2017, 'Fixing our Broken Housing Market' - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

The proposed UK Government response to the current situation includes:

- Increasing availability of suitable land for construction;
- Increasing the pace of housing construction;
- Diversification of the housing market, ***encouraging housing associations and local authorities to build more, and working to attract new investors into residential development; and,***
- Taking steps to assist people now, improving safeguards in the private rented sector and doing more to prevent homelessness and help households currently priced out of the market.

Increasing housing is a top priority for the UK Government, and Housing Associations play a key role in solving the current housing shortage via the following:

- Major source of capital for investment;
- Earnings reinvested in additional low cost housing;
- Rents at a substantial discount to the open market; and,
- Borrowing held off the Government Balance sheet.

The issuance of Social Bonds has increased dramatically in recent years, growing over 10 times in annual volume from 2014 to 2017, with an ever-increasing number of issuers, investors and arrangers active in this space. The Social Bond market is expected to continue to grow in volume, issuer, currency and geographic diversity¹⁰.

MORhomes believes that its business model - assisting providers of affordable housing to raise capital - will resonate with investors interested in allocation of capital toward positive social outcomes, and has therefore decided to issue Social Bonds in accordance with the Social Bond Principles 2018¹¹.

Definition of the Social Bond Proposition

MORhomes plc defines this social bond as a bond issuance where the Proceeds are immediately applied for the sole purpose of on-lending to registered, not-for-profit Housing Associations (each of whom are MORhomes plc shareholders, and established in accordance with UK regulations), whose purpose is constructing, acquiring, refurbishing or maintaining social and affordable housing within the United Kingdom (or other activities carried out in support of this purpose), as defined within the UK statutory framework applicable to such housing.¹²

It is a specific requirement that each borrower has a corporate objective to 'to develop new housing or deliver other assets with high social impact'.

Corporate Governance

MORhomes is a non-traded public company, with listed debt instruments and a business model which specifically supports the social and affordable housing sectors. MORhomes has been

¹⁰ Social Bond Principles June 2018 - Working Towards a Harmonized Framework for Impact Reporting for Social Bonds

¹¹ Social Bond Principles - <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

¹² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/734407/National_Planning_Policy_Framework_print_version.pdf (Annex 2)

established as a plc in the interests of delivering enhanced Governance, Transparency and Accountability.

The company is entirely controlled by not-for-profit Housing Association shareholders, and no single shareholder controls more than 5% of voting rights.

In addition to its shareholders, the Board is aware of the vital role of the company's key stakeholders, which importantly comprise its employees, its lenders, its borrowers and those public organisations which also provide financial support to its borrowers.

The MORhomes Board has determined that a high level of corporate transparency, corporate responsibility and the highest standards of business ethics and probity are vital to the company's success. Accordingly, the Board has determined that it will seek to apply the provisions of the new UK Corporate Governance Code issued by the Financial Reporting Council on 16 July 2018¹³ (the UKCGC) to itself in an effective and proportionate manner from 1 August 2018.

The articles of association of MORhomes require the company to include an annual corporate governance statement within the company's annual report and accounts. The Board has also determined that equivalent information will be maintained on the company's website.

The Board has determined that it will carry out an annual board evaluation and this will be externally facilitated at least once within the first two years of the company's operation.

The Board has responsibility for overseeing performance. Specific responsibilities are delegated to committees that have their own terms of reference. The major committees that support the Board of the Issuer are:

- Credit Committee;
- New Issues Committee;
- Nomination and Remuneration Committee;
- Risk and Audit Committee; and
- Socially Responsible Investment Committee.

Further details regarding the role of the Socially Responsible Investment Committee in the context of the proposed Social Bond issuance are provided in the 'Process for Project Evaluation and Selection' section below.

Application of the Social Bond Principles

This Framework has been established to deliver transparency around the MORhomes Social Bond Proposition. The Framework is designed to demonstrate alignment with the Social Bond Principles 2018.

¹³ <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

Use of Proceeds

The Social Bond proceeds (net of fees and any other costs) will be on-lent to MORhomes members/shareholders, each of whom is a not-for-profit registered social/affordable housing provider¹⁴, and used to finance or refinance, in whole or in part, social/affordable housing projects falling within the Eligible Social Project Categories as detailed below or other activities carried out in support of these projects and the provider’s social purpose.

Eligible projects include existing, ongoing, and/or future projects as categorized below. Eligible projects are also mapped to the relevant Sustainable Development Goals¹⁵.

Social Bond Principles - Eligible Social Project Categories ¹⁶	Use of Proceeds	Example Impact Metrics	Example Projects	Relevant SDGs
Affordable housing	Financing construction (and refurbishment/maintenance) of Social and Affordable Housing ¹⁷ in the United Kingdom	<p>Number of social/affordable housing units constructed¹⁸</p> <p>Rental costs compared to local market rents</p> <p>Tenant satisfaction rates</p> <p>Data on income and social deprivation of people housed</p>	<p>Stonewater Social Housing – Fosse Park Road – 64 affordable new homes in Yeovil¹⁹</p> <p>A2Dominion/Rydon – Jigsaw (former Green Man Lane estate) – 770 new homes (mix of affordable and private sale) in West Ealing²⁰</p>	

Exclusions

On-lending of Social Bond proceeds to Housing Associations determined by MORhomes to be engaged in any activities which are incompatible with the social mission of MORhomes, or which are directly or indirectly generating significant adverse social impacts is excluded.

Note: Certain MORHomes Housing Association members control subsidiaries which are engaged in market activities incidental to, but relating directly to, their core social/affordable housing mission. For example, a small proportion of housing units in a given housing scheme may be placed on the open market, with the aim of establishing a more diverse resident community than would otherwise be the case. Further information relating to such activities across the UK

¹⁴ A full list of MORhomes members/shareholders can be found at the MORhomes website: <http://morhomes.co.uk/our-sponsors/>

¹⁵ <http://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

¹⁶ <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

¹⁷ Social and Affordable Housing as defined by the (below market) rents charged in accordance with the relevant regulated rent standards and the regulated consumer standards of housing service.

¹⁸ Social Bond Principles June 2018 - Working Towards a Harmonized Framework for Impact Reporting for Social Bonds

¹⁹ <https://www.stonewater.org/news/press-releases/old-seaton-s-garage-site-provides-64-affordable-new-homes-in-west-hendford/>

²⁰ <https://www.a2dominiongroup.co.uk/developments/portfolio?p=3>

Housing Association sector is available²¹ in the public domain, including data on revenues relating to such activities, relative to 'core' activities. Any surpluses from such activities are retained by the Housing Associations to support their social objectives.

Process for Project Evaluation and Selection

As noted in the Corporate Governance section above, A Socially Responsible Investment (SRI) Committee of the MORhomes plc Board has been established.

The members of the Committee are currently as follows:

Charles Tilley – Committee Chair

Neil Hadden – Committee Member and Chair of the Board

Ann Santry – Committee Member

Malcolm Cooper – Committee Member

Further details concerning the Committee members are available at the MORHomes plc website²².

The main function of the Committee is to oversee the Issuer's status as a socially-responsible investment.

The initial Terms of Reference for the SRI Committee are:

- To make recommendations to the Board on the Company's strategy and policy in relation to its status as an SRI company;
- To oversee the Company's implementation of its SRI strategy and policy;
- To oversee the establishment of a Framework to demonstrate the company's alignment with the Social Bond Principles 2018, making its entire bond programme Social Bonds under these principles;
- To oversee the arrangements established to ensure the Social Bonds remains in alignment with the Social Bond Principles;
- To oversee the arrangements established to ensure Social Bond proceeds are utilised in accordance with the uses specified in the Framework; and,
- To oversee the introduction and operation of arrangements to generate the information required to produce periodic Social Bond Reports, in accordance with the Framework and the Social Bond Principles.

Note that in the context of this particular Social Bond, where the net proceeds of the Bond are immediately on-lent to registered, not-for profit Housing Associations engaged in the provision of social/affordable housing, all activities of such qualifying Housing Associations (see note on Exclusions above) are assumed to relate to the provision of social/affordable housing and are consequently deemed eligible for financial support via the Social Bond Proceeds. The Housing Associations will be responsible for implementation of the social/affordable housing projects and

²¹ <https://www.gov.uk/government/publications/2017-global-accounts-of-private-registered-providers>

²² <http://morhomes.co.uk/who-we-are/>

qualifying 'projects' will not be individually assessed by MORhomes, although the individual Housing Association must satisfy MORhomes criteria for participation as a beneficiary of the Social Bond.

Management of Proceeds

The entire net proceeds of the Social Bond will be immediately on-lent to eligible Housing Associations for the purposes specified in the Use of Proceeds section above. Net proceeds will be immediately applied on a 'back-to-back' basis by the paying agent to a series of identified loans arranged in connection with Housing Association social/affordable housing projects. Consequently, MORhomes will not establish arrangements to temporarily hold, disburse or otherwise manage proceeds.

Reporting

Annually, as long as the Social Bonds are outstanding, MORhomes will publish updates on a dedicated page of the company website (<http://morhomes.co.uk>) which will include:

1. Allocations by Eligible Project category including a complete list of Housing Associations financed, overall indications of underlying projects financed (based on global Housing Association data) and example case studies, where suitable information is available;
2. Relevant outcomes (e.g. number of housing units constructed/refurbished) based on global Housing Association data; and,
3. An assertion by management that the net proceeds were allocated to eligible Housing Associations.

MORhomes also intends to establish an independent internal audit function and anticipates that data gathering and reporting arrangements relating to the social bond will be included in the remit of the internal audit function at an appropriate juncture. As and when relevant audit procedures have been completed, MORhomes will also include a summary of the independent audit report findings in the annual updates.

External Review

Sustainalytics has provided a Second Party Opinion on the MORhomes Social Bond programme. A link to the Second Party Opinion is available at <http://morhomes.co.uk/socially-responsible-investment/>