

## RISK MANAGEMENT

A resilient and agile risk management approach is helping us navigate Covid-19.

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*“Our risk management framework is designed to ensure the Board can clearly identify our risks and assess our risk profile and risk appetite.”*

**Chris Szpojnarowicz** Company Secretary and Group Legal Director

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### **Our risk management framework**

The Board has overall responsibility for the oversight of risk as well as maintaining a robust risk management framework and internal control system, with the Audit Committee reviewing the effectiveness of our risk management and internal control processes. Our risk management framework is designed to ensure the Board can clearly identify our risks, assess our risk profile and risk appetite, and ensure these risks are being managed and mitigated transparently and effectively. Integral to this design is ensuring we are agile and resilient, which proved especially critical through 2020 as we navigated the huge challenges of Covid-19 whilst overseeing the successful integration of the Liberty Living business.

The Board conducts a twice yearly dedicated risk review. This considers risks with both a top-down review (identifying a wide range of strategic and emerging risks and opportunities) as well as a bottom-up review (challenging the detailed risk trackers produced by the Operations and Property Boards). As part of this focused risk review, the Board undertakes its annual assessment of the principal risks facing the Group, taking account of those that would threaten our business model, future performance, solvency or liquidity as well as the Group's strategic objectives.



## 1 Board leads risk review

Assessing our risk profile and our principal risks and the impact of Covid-19 on these risks.

## 2 Top-down review

Identifying a wide range of strategic and emerging risks and opportunities.

## 3 Bottom-up review

Challenging risks identified by operational management and more technical risks such as information technology, security, business continuity, GDPR, financing and treasury.

## 4 Board searches externally for best practice

Engaging with senior leaders in the Higher Education sector and technical experts on key issues such as Covid-19 and fire safety.

### Output – five risk categories

#### Market risks (supply and demand)

[Read more  
on pages 72 to 74](#)

#### Operational risks

[Read more  
on pages 75 and 76](#)

#### Property/development risks

[Read more  
on pages 77 and 78](#)

#### ESG risks

[Read more  
on page 79](#)

#### Financial risks

[Read more  
on page 80](#)

Whilst the Board considered there were no fundamental changes to our principal risks due to Covid-19, most of our risks were elevated directly as a result of the pandemic and the challenging economic environment, the safety and wellbeing of our customers and employees and the impact of lockdowns on how students study and how we operate our business.

Our values are the foundation for our risk management framework and ultimately combine in our purpose to provide a Home for Success. We recognise that risk cannot be entirely eliminated, but rather use our decision making process to ensure an appropriate balance between risk and opportunity. We are conscious to be risk-aware, defining our risk appetite as we face challenges and embrace new opportunities.

Our risk management framework and how we assess our principal risks, identify emerging risks and ultimately manage and mitigate risk are set out on the following pages.

### Our Covid-19 risk response

The Group took a proactive and pre-emptive approach to managing the business in response to the dynamic and widespread nature of the pandemic. The health, safety and wellbeing of our customers and employees has always been a principal risk and Covid-19 underlined the importance of putting this first. This safety risk was especially elevated when the first lockdown happened (with Universities closing) and then into the 2020/2021 academic year (with Covid-19 prevalent in student accommodation and the wider community). As the pandemic spread further in 2020 and now in early 2021, alongside physical health, the risk to mental health and wellbeing of our student customers and our people has significantly increased. The Board oversees a comprehensive safety risk management plan which included Unite becoming the first student accommodation provider to achieve Covid Secure status accredited by the British Safety Council.

To protect the risk to our reputation, the Board's Covid-19 risk plan ensured clear dialogue and engagement with our customers, Public Health England, local authorities, Universities and other stakeholders as well as direct

Government engagement. As we navigated the impact of the pandemic for our business, staying loyal to our value 'doing what's right' guided our decision making. This was demonstrated with the measures we put in place to respond to Covid-19 for our customers and employees. This included protecting our long-term reputation and enhancing our University partnerships through the pandemic, with Unite waiving rent for students who choose to return home during the third term of 2019/20 academic year, as well as offering rent discounts to those not using their accommodation during the third national lockdown in early 2021. We also ensured a safe working environment for our employees (as detailed on page 53).

To manage the income risk which flowed from doing the right thing by waiving / offering discounted rents, the Board took decisive action to protect our cash and financial position. These actions included: deferring development and non-essential operational capex and delivering cost savings, a 30% reduction to salaries and pension contributions for Executive Directors, 10-20% for senior management and a 30% reduction in fees payable to Non-Executive Directors (effective for a four-month period from 1 April), cancelling our 2019 final dividend and suspending our 2020 interim dividend, realising additional cost synergies from the Liberty Living acquisition, in-sourcing work for summer 2020 turnaround and cleaning as well as savings to utility and broadband costs with a halt to discretionary overhead spending and non-essential recruitment.

To manage our Financing risks, the Board increased the monitoring of our headroom under our banking covenants under various stress tested scenarios. Covenants vary between facilities but are principally based on LTV and interest cover ratios (ICRs). The ICR ratios were especially challenged by the widespread nature of the pandemic and its impact on income. The Board ensured proactive engagement with lenders.

The table on pages 66 and 67 set out in more detail the impact of Covid-19 on our principal risks and what the Board did to address this.

## RISK MANAGEMENT CONTINUED

### Covid-19 impact on our principal risks in 2020

#### OPERATIONAL RISK – SAFETY

##### Covid-19 impact – what happened

Covid-19 and its widespread impact on the safety and wellbeing of our customers, our employees and the communities we operate in.

##### Our Covid-19 risk response – what we did

Managed our Covid-19 safety risk through a comprehensive risk management plan as well as seeking expert Covid-19 third party assurance. We were the first accommodation provider to achieve Covid Secure status accredited by the British Safety Council. To protect our reputation, our Covid-19 plans included clear dialogue and engagement with Public Health England, local authorities, our various stakeholders as well as direct Government engagement.

Read more about our Covid-19 risk response on page 65 and in the Health and Safety Committee report on page 115.

During Covid-19 it has been especially important to fully engage with all employees in light of the rapidly evolving situation and the changing University calendar.

We have:

- increased two-way channels to listen to our employees and give them direct and frequent access to senior leaders so we can respond to situations
- held regular Unite Live forums enabling all employees in the business to speak to and ask questions of the leadership team and through regular Covid updates
- conducted regular pulse surveys with our teams to understand their needs during this difficult time
- supported all office-based employees to work from home, supported by a health and safety assessment of their workplace
- increased our Special Leave to support teams with balancing work life and home life.

[Read more about Covid-19 safety response on pages 2 and 3](#)

#### DEVELOPMENT RISK

##### Our Covid-19 risk response – what we did

Covid-19 impact on development, including programme risk in delivering schemes on time and to budget.

##### Our Covid-19 risk response – what we did

Covid-19 created unique challenges to securing new sites as well as delivering schemes on time and to budget (temporary site closures and reduced levels of operatives on site as a result of social distancing measures). Notwithstanding this, we delivered 2,257 beds across three development schemes for the 2020/21 academic year. This includes White Rose View in Leeds with a

559-bed 30-year nomination agreement with the University of Leeds (completed on time and budget for student arrivals in September 2020) plus Arch View House, London and Artisan Heights, Manchester delivered in Q4 2020.

In response to Covid-19, deferred delivery of two schemes (Middlesex Street, London and Old BRI, Bristol) to 2022.

#### ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) RISK

##### Covid-19 impact – what happened

Key stakeholders' focus on ESG risk has increased and is likely to continue because of Covid-19.

##### Our Covid-19 risk response – what we did

Through 2020 we developed our new Sustainability Strategy following extensive engagement with investors and other stakeholders. This strategy will play an important role in the longer-term sustainability of the business.

[Read more about our Sustainability Strategy on pages 46 to 63](#)

## MARKET RISK

### Covid-19 impact – what happened

Increasing risk of macro events reducing demand for UK HE and student accommodation (such as the Covid-19 pandemic, Government policy around HE or immigration and uncertainty related to Brexit).

### Our Covid-19 risk response – what we did

This demand risk was amplified by the sudden and unprecedented nature of the global pandemic with Covid-19 impacting us directly and materially in the 2019/20 and 2020/21 academic years leading to a material loss of income. Risk mitigated primarily through suspending dividends, conserving cash, drawing bank facilities and reducing costs wherever possible whilst ensuring safety remained paramount.

Worked directly with the Government and public health authorities on Covid-19 as well as with Universities on their

dynamic operating plans for the 2020/21 and 2021/22 academic years.

High and medium- tariff Universities have demonstrated the most resilience through Covid-19 and this supports our strategy to align with these Universities through our acquisitions, disposals and development activity.

[Read more in the Market overview on pages 27 to 31](#)

### Covid-19 impact – what happened

Customer expectations of value-for-money and affordability – Covid-19 impacting student experience.

### Our Covid-19 risk response – what we did

Demonstrated value-for-money and affordability through Unite's focus on doing the right thing for all stakeholders, especially students, during the uniquely challenging period.

Decisive action to enhance our reputation with students, parents and Universities building on our strong University partnerships, including:

- first in the sector to refund students the cost of the third term's accommodation fees for the 2019/20 Academic Year if they left accommodation early because of the pandemic as well as first in the sector to offer discounted rents early in 2021 and a complimentary four weeks to extend their stay into summer 2021

- provided rent-free homes for those students who did not want or were unable to return home in summer 2020, ensuring the continuity of a safe and secure living environment during an otherwise uncertain time in their lives
- worked closely with Universities to share best practice Covid-19 operating procedures
- offered flexible booking particularly at the start of the new academic year given regional lockdowns.

[Read more about Operations review on page 17](#)

## FINANCIAL RISK

### Covid-19 impact – what happened

Covid-19 increasing level of uncertainty around income. This impacts balance sheet liquidity and compliance with debt covenants.

### Our Covid-19 risk response – what we did

Our debt covenants, like for many other borrowers, were fundamentally tested by the sudden, unexpected and wide ranging nature of Covid-19. This especially so for ICR covenants, not historically a risk and not designed to absorb a change such as this. To manage this risk, the Board took rapid action to ensure that the Group had sufficient liquidity through deferral of development activity, cancellation and suspension of dividends, cost saving activity and drawing bank facilities.

This provided the Group with meaningful liquidity headroom to be able to withstand severe downside scenarios. In addition, we have engaged more proactively with our lenders and increased our covenant monitoring across a range of scenarios. This ensured that as risks emerged, we were ready to identify further action and share regular updates with lenders. Also, external audit review of covenant compliance through the Going Concern process.