Annual Treasury Management Strategy

Document Control

Responsible Person	Corporate Services Manager			
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1	**Introduction**
1.1	This strategy sets out Waverley Housing's approach to treasury management.
1.2	The Company, in recognition of The Chartered Institute of Public Finance & Accountancy (CIPFA), Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition), defines its treasury management activities as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
1.3	Waverley Housing regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Company's approved Treasury Management Policy and Practices; the main risks to the Company's treasury activities are: • Liquidity risk (inadequate cash resources) • Market or interest rate risk (fluctuations in interest rates levels) • Inflation risks (exposure to inflation) • Legal and regulatory risk (i.e., non-compliance with statutory and regulatory requirements, risk of fraud).
1.4	The strategy also considers: • the outlook for interest rates (provided by the Office of Budget Responsibility) • the Company's current treasury position • the Company's cashflow forecasts as reported in the Annual Budget and Financial Plan
2	**Overall Vision and Objectives of Strategy**
2.1	<u>Our Vision:</u> The Treasury Strategy supports the revenue budgets, and the capital expenditure which in turn are key to delivering the Company's vision <u>Key Objectives of the Strategy:</u> • To ensure loan covenants are not breached • To ensure all borrowings and/or investment activity is carried out in accordance with the approved Treasury Management Policy and Practices. • To ensure any additional borrowings is subject to due diligence and long-term affordability. • To effectively identify, manage and control treasury risk • To manage the debt maturity profile in accordance with that agreed with our Funders • To ensure availability of liquid funds to meet financial commitments as they fall due • To ensure prudent investment of any surplus funds

3	**2020/2021 Review**
3.1	During 2020/21, quarterly interest payments were made to Barclays in accordance with the payment schedule. A capital payment of £400,000 was made in December 2020.
3.2	Other financial and treasury information was submitted to Barclays in accordance with the Facility Agreement.
4	**Treasury Position**
4.1	The tables below set out the current treasury position:

LOANS (at 26 September 2021):

Term	Maturity Date	Interest	Interest Rate	Margin	Applicable Rate	Principal Amount
30 years	31/01/2039	Fixed	4.9600%	1.2000%	6.1600%	£13,580,000
30 years	31/01/2039	*LIBOR	0.0813%	1.2000%	1.2813%	£5,820,000
					TOTAL LOANS	**£ 19,400,000**

**LIBOR = current 3-month London Interbank Offered Rate (from 2022 LIBOR will be replaced by Sterling Overnight Index Average (SONIA)).*

FIXED TERM DEPOSITS (at 26 September 2021):

Placed with	Date of Deposit	Maturity Date	Term (months)	Interest	Interest Rate	Principal Amount
Virgin Money	08/07/2021	08/01/2022	6	Fixed	0.250%	£203,632
					TOTAL FIXED TERM DEPOSITS	**£203,632**

OTHER DEPOSITS (at 26 September 2021):

Account Details	Interest	Interest Rate	Balance
Royal Bank of Scotland (Operating A/C)	Variable	0.010%	£3,528,743
Royal Bank of Scotland (Stock Replacement A/C)	Variable	0.010%	£273,960
Barclays (95 Day Notice A/C)	Variable	0.150%	£676,748
		TOTAL OTHER DEPOSIT ACCOUNTS	**£4,479,451**

4.2

	The estimate for interest payments in 2021/22 is £910,228 and for interest receipts is £3,000. A capital repayment of £400,000 will be made to Barclays in December 2021.
5	**Outlook for Interest Rates**
5.1	The Bank of England Monetary Policy Committee (MPC) decided in March 2020 to reduce the bank rate from 0.75% to 0.10% in response to the economic and financial impact of the Covid-19 pandemic. It is anticipated that the bank rate will not rise until the economy starts to improve or inflation rises above target levels. Any increases are likely to be at a gradual pace and to a limited extent.
5.2	The Government has set the Bank of England a CPI target of 2%. CPI inflation at August 2021 was higher than target at 3.2% following fluctuations due to the Covid-19 pandemic. The latest outlook is that inflation will stabilise at 2%.
6	**Future Borrowing Requirements**
6.1	We have commenced a major project to regenerate our stock in Upper Langlee, Galashiels. This incorporates the demolition of 159 flats and provision of 109 new homes. The total cost of this project is forecast at £19M of which £9M would be borrowed against the scheme. It is anticipated that these funds will not be required until 2022/2023. Our intention would be to use specialist treasury management consultants to help secure the funding at competitive rates and terms.
7	**Investment Strategy**
7.1	Waverley Housing does not have any long-term investments; therefore, any investments arise only from any cash flow surpluses. Current short-term deposits will fund future cash flow requirements any may be used to fund stock purchases on the open market. Any such purchases would be made in accordance with the Purchase of Properties Policy.
7.2	Income from our deposits is not a key element in our budget, and the current low rates do not have a great impact on our cash flows.
7.3	Investments are made with the following organisations:

Organisation	Long-Term Deposit Rating
Barclays Bank plc (our Funders)	Moody: A1 (upper medium grade) - 13 Jul 2021
The Royal Bank of Scotland plc (our clearing Bank)	Moody: A1 (upper medium grade) - 13 Jul 2020
Virgin Money UK PLC	Fitch: BBB+ (good quality) - 5 July 2021

8	**Risk Assessment**

8.1	The main risk to be managed is the uncertainty of variable interest rate changes; however, this has been mitigated to a large extent by fixing 70% of our debt. Interest on our variable debt before margins is currently 0.0813% . The 2021 Financial Plan uses information sourced from the Office of Budget Responsibility and provides for increasing interest rates as follows:
8.2	Returns on our short-term investments are not seen as a risk, since we are not dependent upon the interest receipts.
9	**Treasury Reporting**
9.1	Monthly cash flow statements are incorporated within our Performance Reports which are reported to the Board.
9.2	Any other treasury activity will be reported as necessary.
10	**Organisation and Segregation of Duties**
10.1	The Company considers it essential for the purposes of the effective control and monitoring of the treasury management activities, for the reduction of fraud and error and for the pursuit of optimum performance that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.
10.2	The principle, on which this is based, is a clear distinction between the Board, setting the treasury management policies and employees implementing these policies, particularly with regard to the execution and transmission of funds and the recording and administering of treasury management decisions.
11	**Staff Training**
11.1	The Company recognises the importance that all staff involved with the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are capable and experienced, and will provide training, as necessary, for staff to enable them to acquire and use their skills and knowledge appropriately.

Year	Interest Rate
2021/2022	0.10%
2022/2023	0.25%
2023/2024	0.50%
2024/2025	0.75%
2025/2026	1.00%
2026/2027	1.25%
2027 onwards	1.75%

12	**Conclusion**
12.1	The strategy is designed to ensure that Waverley Housing achieves the best possible rates for its borrowings and investments, at the minimum level of risk in light of prevailing and forecast market conditions.

Appendix 1

Risk Assessment & Targets

No.	Risk	Potential Implications	Controls	Risk
1	Adverse changes in inflation and/or interest rates	• Failure to meet anticipated cash flow targets • Breach of covenants • Poorer service and tenant dissatisfaction.	• Use of Treasury Management Policy • Use of appropriate mix of borrowings in loan/investment portfolio • Use of sensitivity analysis on financial forecasting • Use of effective budgetary, direct cost and overhead controls	Low
2	Poor Treasury Management	• Cost to the company • Unsatisfactory funding • Inappropriate investments	• Effective Treasury Management Policy • Internal Audit reviews • Use of professional advice	Low

Targets

Performance Indicator	Definition	Target
Net Debt per unit	Net debt divided by the number of properties	£16,000 (max)
Interest Cover (current year)	Ratio of net operating surplus to net interest payable	90% (min)