

Annual Treasury Management Strategy



Document Control

Responsible Person	Corporate Services Director			
Review Frequency	Annually			
Reviewed by	Audit & Control Committee (AICC)			
Date Approved	October 2023			
Next Review Due	October 2024			
Consultation Required	Yes		No	✓
Equalities Impact Assessment	Yes		No	✓
Added to Company Website	Yes	✓	No	
Associated Documents Considered	Yes	✓	No	

Associated Documents

This document should be read in conjunction with:

- Appendix 1 – Risk Assessment
- Treasury Management Policy & Practices
- Treasury Management Schedules

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 (2021 Edition), defines its treasury management activities as:

“The management of the organisation's borrowing, 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. Our Vision:

The Treasury Strategy supports the revenue budgets, and the capital expenditure which in turn are key to delivering the Company's vision

Key Objectives of the Strategy:

- 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. 2022/23 Review

- 3.1. During 2022/23, quarterly interest payments were made to Barclays in accordance with the payment schedule. A capital payment of £400,000 was made in December 2022.
- 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 (as at 15 September 2023):

Term	Maturity Date	Interest	Interest Rate	Margin	Applicable Rate	Principal Amount
30 years	31/01/2039	Fixed	4.9600%	1.2000%	6.1600%	£13,020,000
30 years	31/01/2039	*SONIA	Variable	1.2000%	Variable	£5,580,000
TOTAL LOANS						£ 18,600

*SONIA = Sterling Overnight Index Average

DEPOSITS (as at 30 September 2023):

Account Details	Interest	Interest Rate	Balance
RBS (Operating A/C)	Variable	2.5%	£5,092,948
RBS (Stock Replacement A/C)	Variable	0.42%	£276,881
TOTAL DEPOSIT ACCOUNTS			£5,369,830

- 4.2. The estimate for interest payments in 2023/24 is £1,193,767 and for interest receipts is £2,000. A capital repayment of £500,000 will be made to Barclays in December 2023.

5. Outlook for Interest Rates

- 5.1. The Bank of England base rate has increased from 2.25% to 5.25% over the last 12 months. It is anticipated that the bank rate may continue to rise until inflation reduces to target levels.
- 5.2. The Government has set the Bank of England a CPI target of 2%. CPI inflation at 6.7% September 2023. The rate of inflation is forecast to keep rising this year, but is expected to slow down next year, and be close to 2% in around two years.

6. Future Borrowing Requirements

- 6.1. Waverley Housing is continuing to make progress with a major project to regenerate its stock in Upper Langlee, Galashiels. This incorporates the demolition of 159 flats and provision of 109 new homes. The programme of work has been rephased with Phase 1A, of the project, comprising 25 family homes in the proximity of Larch Grove. Phase 1A has been subjected to an open market tender process, through Public Contracts Scotland, and a letter of intent has been issued to the preferred contractor. The contract value of Phase 1A is circa £6.9M subject to Value Engineering and is likely to require an above benchmark grant application to More Homes Scotland.

Phase 1A is likely to have a requirement for private finance, and Waverley Housing is close to concluding a facility agreement, of up to £10.0m, of additional private finance to supplement Scottish Government – Affordable Housing Supply Programme grant, Scottish Borders Council contributions from the 2nd Homes Council Tax Fund and Waverley Housing's cash reserves. On 29th of November 2022 the Board endorsed the recommendation to select a preferred lender to provide new private finance facilities of up to £10.0m on the commercial terms set out by the nominated Bank. Commercial and Legal Terms of the offer have been reviewed and it is anticipated that the Facility Agreement will be signed by both parties in October 2023.

Waverley Housing is working with Barclays Bank UK PLC (Barclays) to allow the 'carve out' of 670 properties from security, held by Barclays, against the existing Waverley Housing loan facility. This would allow for around 350 properties to be retained by Barclays as security against the existing loan agreement. Barclays confirmed, in January 2023, that the 'carve out' proposal had been approved by its Credit Committee. This meant that both parties (Barclays UK and Waverley Housing) could move towards formally documenting the revised arrangements, by way of an amendment and restatement agreement, to be drafted by legal advisors acting for Barclays. The final version of the Amendment and Restatement Agreement has been ratified by TC Young and is expected to be available for signature by the Board meeting in October 2023.

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 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) - 23 March 23
The Royal Bank of Scotland plc (our clearing Bank)	Moody: A1 (upper medium grade) - 22 Jun 2022

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. The remaining 30% of debt is based on Sterling Overnight Index Average (SONIA). The 2023 Financial Plan uses information sourced from the Office of Budget Responsibility and provides for SONIA interest rates as follows:

Year	SONIA
2023/2024	4.76%
2024/2025	4.48%
2025/2026	4.09%
2026/2027	3.80%
2027/2028	3.55%
2028/2029	3.36%
2029 onwards	2.00%

- 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. Quarterly 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.

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.

Risk Assessment & Targets

No.	Risk	Potential Implications	Controls	Risk
1	Adverse changes in inflation and/or interest rates	<ul style="list-style-type: none"> • Failure to meet anticipated cash flow targets. • Breach of covenants . • Reduction in service delivery and tenant dissatisfaction. 	<ul style="list-style-type: none"> • 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	Inferior Treasury Management	<ul style="list-style-type: none"> • Cost to the company. • Unsatisfactory funding. • Inappropriate investments 	<ul style="list-style-type: none"> • 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)