

Treasury Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

Capital Issues

- the capital plans

Treasury Management Issues

- the current portfolio position
- loan covenants
- prospects for interest rates
- the borrowing strategy
- debt rescheduling
- the investment strategy
- use of external service providers.

Capital Issues

Capital Plans

Included within the first five years of 30-year plan 2022/23 to 2026/27 the following capital expenditure has been profiled to occur:

Capital Expenditure	2022/2023 £000s	2023/2024 £000s	2024/2025 £000s	2025/2026 £000s	2026/2027 £000s
New Build Properties	5,580	8,674	1,782	133	-
Open Market Purchases + Other fixed assets –Net of Grant	211	51	44	59	290
Capital Expenditure on existing stock	1,432	1,079	1,193	1,925	2,454
Financed by:					
Capital Grants: HAG received	4,046	4,504	-	-	-
Own Resources	3,177	5,300	3,019	2,117	2,744
Net funding required from Private Finance – working capital					

Treasury Management Issues

The capital expenditure plans set out above provide details of the capital expenditure activity of the Association.

Treasury management ensures that the Association's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this activity. This will involve both the organisation of the cashflow and, where capital plans require, the organisation of appropriate borrowing facilities.

The annual strategy covers the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

The Association's treasury portfolio anticipated position at 31 March 2022, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need, highlighting any further requirement for borrowing facilities.

	Type / Maturity Dates	2021/22 Forecast	2022/23	2023/24	2024/25	2025/26	2026/27
Borrowings							
Nationwide	Interest only – Bank base+0.375% 1/11/2046	0.645m	0.618m	0.592m	0.565m	0.538m	0.512m
Nationwide	Fixed rate – 2.705% term fixed at intervals	9.769m	9.487m	9.198m	8.902m	8.596m	8.281m
		10.414m	10.105m	9.790m	9.467m	9.134m	8.793m
Royal Bank of Scotland (RBS)							
FACILITY 'A' D02058611761 2	Fixed rate SWAP 22/01/2034 – 3.63% plus margin 0.50%	3.0m	3.0m	3.0m	3.0m	3.0m	3.0m
FACILITY 'A'	3 month SONIA plus margin 0.50%	3.200m	2.683m	2.166m	1.650m	1.133m	0.616m
FACILITY 'B' D15823191	Fixed rate SWAP 28/06/2022 – 5.99% plus margin	1.997 m					
FACILITY 'B' fixed converted to variable	3 month SONIA plus margin 0.325%		1.897m	1.577m	1.257m	0.937m	0.617m
FACILITY 'B'	Fixed rate SWAP 22/1/2033 – 3.465 plus margin 0.325%	2.2m	2.2m	2.2m	2.2m	2.2m	2.2m
FACILITY 'B'	3 month SONIA + 0.325%	0.20m					
FACILITY 'C'	Variable 3 month SONIA + 1.75% increasing to 1.85% then to 1.95%	4.0m	4.0m	4.0m	4.0m	4.0m	4.0m
FACILITY 'C'	Fixed rate SWAP 02/01/2035 – 3.805% plus margin of 1.75% increasing to 1.85% then to 1.95%	2.0m	2.0m	2.0m	2.0m	2.0m	2.0m
Total RBS Loans drawn Down		16.597m	15.780m	14.943m	14.107m	13.270m	12.433m
TOTAL		27.011m	25.885m	24.733m	23.574m	22.404m	21.226m
Net funding required for capital projects		Nil	Nil	Nil	Nil	Nil	Nil

The proportion of fixed percentage of total loans at the end of 2021/22 will be $18.966/27.011 = 70.22\%$.

Loan covenants

Loan covenants	RBS	Nationwide BS
Gearing at 31/12/21	29%	
Max permitted	60%	n/a
Asset cover at 31/12/21	3.9:1	
Min permitted	1.1:1	n/a
(Operating cash +depreciation)/borrowing costs at 31/12/21	6.1:1	
Min permitted	1.1:1	n/a
Surplus/interest payable at 31/12/21		379%
Min permitted	n/a	110%

The Association will achieve the loan covenants set over the budget and business plan period, as well as over the 30-year planning period.

Prospects for Interest Rates

The Association has appointed ATFS (formerly Murja) as its treasury advisor and part of its service is to assist the Association to formulate a view on interest rates. Appendix 1 draws together a number of current City forecasts for short-term (bank rate) and longer fixed interest rates.

Borrowing Strategy

Due to the assumption of the additional specific developments within the 30-Year Plan, the Association will not need to obtain a further private finance facility during the next 5 years. It has been assumed that finance options will be pursued during the period, to enable further growth and/or additional expenditure on capital works for existing stock.

Work has progressed in 2021-22 to release the excess security on assets given to RBS during the 2011 facility negotiations, and the Association will release 1477 properties during 2021-22. No additional costs of obtaining new finance has been budgeted as the timings etc are uncertain due to the EESSH 2 and sustainability strategy progression as well as further review of the 2020 sock condition survey.

At 31 December 2021, the Association had 194 housing properties, 655 garages and the office unencumbered as detailed below:

Empty Homes Initiative	31 Units	Value at Oct 2011	£561,000 (17,531)	Existing Use – Social Housing 70 Don Drive SOLD
Mortgage to Rent	52 Units	Value at Oct 2011 for 41 units	£1,170,000	Existing Use – Social Housing
Whitdale Annex	49 units	Insurance value	£5,500,000	Insurance value
Broomyknowe Crt	12 units	Insurance value	£1,200,000	Insurance value
Forth Court	9 units	Insurance value	£1,079,510	Insurance value
Piriebank	12 Units	Insurance value	£1,752,952	Insurance value
Carmondean	5 units	Insurance value	£519,574	MV – HAG FUNDED
8D Broomwalk	1 unit	Purchase OMV 2013/14	£42,000	MV
64 Mossbank	1 unit	Purchase OMV	£98,000	MV
20 Pinebank	1 unit	Purchase OMV	£92,000	MV
22 Yew Grove	1 unit	Purchase OMV	£60,000	MV
14 Oak Grove	1 unit	Purchase OMV	£50,000	MV
31 Doon Walk	1 unit	Purchase OMV	£85,000	MV
30 Juniper Grove	1 unit	Purchase OMV	£60,000	MV
32 Yew Grove	1 unit	Purchase OMV	£55,000	MV
3 Spruce Grove	1 unit	Purchase OMV	£75,600	MV
56 Tweed Drive	1 unit	Purchase OMV	£44,750	MV
14 Adelaide St	1 unit	Purchase OMV	£65,000	MV
14 Yew Grove	1 unit	Purchase OMV	£85,000	MV
41 Yew Grove	1 unit	Purchase OMV	£40,000	MV
50 Don Drive	1 unit	Purchase OMV	£65,000	MV
115 Falcon Brae	1 unit	Purchase OMV	£95,000	MV
16 Hobart Street	1 unit	Purchase OMV	£60,000	MV
28 Onslow Street	1 unit	Purchase OMV	£75,000	MV
8 Shiel Walk	1 unit	Purchase OMV	£60,000	MV
43 Hobart St	1 unit	Purchase OMV	£65,000	MV
9 Juniper Grove	1 unit	Purchase OMV	£62,800	MV
26 Rannoch Walk	1 unit	Purchase OMV	£95,250	MV
42 Yew Grove	1 unit	Purchase OMV	£59,300	MV
45 Templar Rise	1 unit	Value at Oct 2011	£279,000	Existing Use – Social Housing
Burngrange	1 unit	Value at Oct 2011	£392,000	Existing Use – Social Housing
Garages	655	Value at Oct 2011 for 654 units	£870,000	Existing Use – Social Housing
Etive Walk	Office		£1,550,000	Market Value
TOTAL VALUE			£16,346,205	
Progressing security release				
Stock Transfer stock – Craigshill and Howden	1477	Valuation 2021	£38,910,000	Existing Use – Social Housing
Polbeth Farm	25			Expected handover in February 22
TOTAL			£55,256,205	

Debt rescheduling

The Association's loans' maturity dates are detailed above. No loan will mature over the next five years. However, the fixed rates obtained on part of the Facility B expire in June 2022. This loan will revert to SONIA rates this year, reduced interest will be paid on that element of the loan from that date. The fixed rate on this loan was 5.99% plus margin. As part of the loan facility obtained within 2011 hedging instruments were used to ensure a proportion of fixed rate loans were maintained to reduce interest rate risk. As agreed by the Board, the Association entered into a 'rollercoaster' fixing with the Nationwide Building Society at a rate of 2.705% over the term with key fixing dates in 2017, 2018 and 2019. This has left a variable rate loan less than £700k with Nationwide, this has reverted to a base rate loan from 1 January 2022.

The investment strategy

In line with the Association's Treasury Management Policy (TMP), all short-term investments will be made on the basis of the following:

- The length of time the funds will be available for investment
- The security of the sum to be invested
- The liquidity of the investment
- The yield of the investment

The types of deposit used will be call or other deposits held with Banks and Building Societies for funds available on either instant access or for terms less than six months.

Investment of funds as at 31 December 2021 were with the following financial institutions:

Royal Bank of Scotland	Investment Account – Instant Access	(0.01%)	£ 3,723,813
Bank of Scotland	32 Day Notice Account	(0.03%)	£ 2,015,684
Nationwide	Instant access	(0.05%)	£ 1,500,000
Nationwide	45 day Notice	(0.20%)	£ 1,000,000
Santander	35 day Notice	(0.30%)	<u>£ 4,483,719</u>
Total Investment			<u>£12,723,216</u>

Investments limits with banks, together with criteria for lending, are contained within the TMP which will be adhered to for all investments. The Association will utilise these funds for the development of the 99 units specifically identified within the 5-year plan, together with the spend on major works programmed, additional funding will be progressed during 2022-23 with cost of raising finance capitalised against loan balances in line with Financial Accounting conventions.

The use of external service providers

In line with the Association's Treasury Management Policy, the Association recognises the potential value of employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Association's treasury advisors are Aquila Treasury & Finance Solutions (ATFS), formerly Murja Limited. ATFS assisted the Association in securing the current facilities in August 2011 and with the negotiations into the Nationwide loan fixings. ATFS will be used for any loan financing obtained during the planning period, which will be required for developments in excess of the 99 units identified within the budget and forecasts for 2022 (unit costs increases in excess of those profiled may result in borrowing to be obtained earlier).

When employing such service providers, the Association will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance and ICT.

The Association has assumed that it will continue to use ATFS on a retainer basis throughout 2022/23 at a cost of £3000+VAT.

Craig Porter
DIRECTOR OF FINANCE & ICT

- The Swap Yield Curve unwinds inversion by end of 2022

Table 2: Interest Rate Forecast – January 2022

Date	Base Rate	SONIA	5-year SWAP	10-year SWAP	30-year SWAP
Jun-22	0.5	0.45	1.4	1.5	1.35
Dec-22	0.75	0.7	1.65	1.75	1.75
Jun-23	1	0.95	1.85	1.95	2.1
Dec-23	1.25	1.2	2.15	2.25	2.35
Jun-24	1.25	1.2	2.15	2.35	2.45
Dec-24	1.25	1.2	2.25	2.45	2.6
Jun-25	1.5	1.45	2.35	2.5	2.65
Dec-25	1.5	1.45	2.45	2.55	2.75
Jun-26	1.75	1.7	2.5	2.65	2.8
Dec-26	1.75	1.7	2.5	2.75	3

Bold denotes change since last forecast

Sources: Bloomberg, BOE