

Funding Strategy 2022-23

In March 2019, Langstane Housing Association approved a Treasury Management Policy which defines its treasury management activities as “the management of Langstane’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”.

The Treasury Management Policy defines Langstane’s minimum requirements for funds to be held on short and medium term access; the proportion of hedged and unhedged debt (the optimum level to be achieved by April 2023); and states that only institutions regulated by the Prudential Regulation Authority will be utilised. The Policy also requires the creation of an annual Funding Strategy with six-monthly updates presented to the Board of Management.

At all times the annual Funding Strategy will adhere to the Treasury Management Policy and all approved Treasury Management Practices and corporate financial documents. No additional liquidity measures are proposed within this Plan over and above those contained within the Treasury Management Policy.

Existing and future lending facilities 2022-23

Langstane Housing Association’s main lenders are the Lloyds Group (Bank of Scotland and Lloyds Bank), and Santander.

The following table captures Langstane’s lending facilities as at 31 December 2021:

Lender	Facility	Value of drawn funds to be repaid	Maturity date	Fixed / Variable	Interest rates
Bank of Scotland	Revolving Credit	£15.5 million	October 2023	Variable	SONIA + 0.9%
Lloyds	Fully amortising	£1 million and £15 million	Sept 2028 and Dec 2031	Fixed	4.32+1% + 4.32+1.5%
Santander	Fully amortising	£8.5 million	Aug 2035	Fixed	5.305% - 5.71%

The Bank of Scotland revolving credit facility has a further £9.5m that is fully secured and can be drawn down. There are a maximum of nine tranches possible within the terms of the loan and following a consolidation exercise three tranches are drawn down to date. Within the financial year 2022-23, it is anticipated that no further draw down of funds will take place although it has previously been agreed the £2m repaid to the revolving credit facility may be utilised if required as we catch up on our planned maintenance and component spend. Future plans will only include additional borrowing for specific projects that can demonstrate a positive impact on the Association's long term position.

Langstane will look to refinance the revolving credit facility during 2022-23. It is the intention to explore options such as converting all of this to a fully amortising debt with a longer term date or retaining a smaller revolving credit facility for medium term flexibility and converting the rest to fixed term debt. The optimum solution will be subject to the requirements of the agreed revised business plan and viable options will be presented to the Board of Management for approval.

Significant excess security is held against the Lloyds Bank loan and the Association will explore options for transferring excess security into the Prudential Trust Deed held to offset any risks associated with accessing additional / replacement funding. Detailed proposals for this will be presented to the Board of Management for consideration. We currently have 27% of unencumbered stock.

Any additional funds generated through the sale of assets will be used to offset the revolving credit facility and / or fund strengthening the Association's ability to attract longer term funding to replace the short term revolving credit facility (for example transferring excess security within existing lending agreements to the Security Trust Deed). All options will be presented alongside their impact on the Association's existing loan covenants.

A 30-year cash flow is presented within the financial projections and, subject to refinancing, illustrates Langstane's ability to manage liquidity and retain at least £1.5million in cash and bank balances at all times throughout the financial plan in accordance with the Treasury Management Policy.

It can be confirmed that during 2021-22, Langstane has complied with all lender requirements and total permitted borrowing had not been exceeded.

Interest rates

The Association has a number of fixed loans that have been in place from 2003 onwards. It is proposed that 70% of all outstanding loans will be fixed rate by April 2023. At 31 December 2021 this currently stands at 61%: 39%. Attached for information is the latest UK base rate forecast from ATFS, the Association's retained Treasury Management advisors (please refer to Board papers available to view).

The issue is that the Association is tied into the fixed rates contained within the loan agreements. As can be seen, the fixed rate loans have interest rates considerably above the rates seen in previous years and those forecast up to and including December 2023. The break clauses within these Agreements are significant removing the attractiveness of replacing existing loans which are fully amortising.

The Bank of Scotland's revolving credit facility attracts the more competitive interest rates. However, the short term nature of this facility, along with the uncertainty associated with interest rate rises, has prompted the Association to look for alternative options as previously detailed.

Interest rates on deposit accounts continue to be very low. At present the Santander account attracts 0.03% per annum for balances with unlimited free access to the funds available.

The Royal Bank of Scotland account is the Association's day to day clearing bank and as such interest is not paid on the accounts.

Nationwide balances over £5,000 and below £10 million attract interest rates of 0.05% per annum. This is for an instant access account.

The Bank of England base rate increased to 0.25% from 0.1% in December 2021 which is the first increase since March 2020. High inflation, supply chain disruptions, labour shortages and rising taxes are impacting on living standards and limiting economic growth which suggests further increases are likely. Market commentators are forecasting the base rate to reach between 0.75% and 1.00% by the end of 2022.

It is not anticipated any future hedging arrangements are required within this financial year due to interest rate rises. Longer term the prediction is that the base rate will increase to 1.25% by Dec 2023, 1.50% by Jun 2025 and 1.75% by Jun 2026.

Cash flow and cash surpluses

During 2021-22, Langstane did not breach the Association's Treasury Management levels and all contractual legal and statutory payment obligations were made.

Cash flow during 2022–23 and beyond will benefit from the ongoing efficiencies implemented by Langstane Housing Association.

The latest 5-year cash flow projections extracted from the 30 year plan to be approved by the Board on 16 February 2022 are:

£000's	2022-23	2023-24	2024-25	2025-26	2026-27
Cash and bank at start of year	2,930.0	1,934.4	4,892.7	5,318.7	5,612.2
Surplus from operating activities	4,466.3	5,441.5	6,015.5	6,449.9	6,422.7
Investing activities	(2,029.8)	(1,466.8)	(1,271.0)	(1,900.0)	(1,912.3)
Financing activities	(3,432.1)	(1,036.5)	(4,318.4)	(4,256.4)	(4,145.8)
Cash and bank at the end of year	1,934.4	4,892.7	5,318.7	5,612.2	5,976.8

All funds in excess of day to day operational requirements, if they are not utilised to reduce the revolving credit facility, will be held on deposit with a maximum of £2,000,000 held at any given time in each account.

The exceptions being the clearing account held with Royal Bank of Scotland whereby funds above this amount can be held for up to 14 days from the date the unexpected funds went into the account; and for sinking funds; or funds held in escrow by direction of a lender pending completion of security arrangements.

Maturity of loan agreements

In October 2023 the revolving credit facility will mature. In previous years, discussions were held with lenders about 'rolling over' such facilities. As previously detailed, during 2022-23 Langstane will explore the option of refinancing the revolving credit facility, although options to convert this either fully or partially to a fully amortising debt with a longer term date will also be explored.

Legal and Regulatory changes

At present there are no indications of any legal and / or regulatory changes that will affect Treasury Management practices.

A revised CIPFA Treasury Management Code of Practice was published in December 2017. There is an expectation by the Scottish Housing Regulator that all registered social landlords follow this Code which Langstane Housing Association does.

Performance management and monitoring

Monthly financial reports are presented to the Board of Management and within them is a statement regarding treasury management adherence.

Covenant compliance is measured and reported upon monthly as follows:

Covenant	Loan requirements	Internal target
Interest rate (the Santander loan allows this to be >95% in one financial year followed by 3 consecutive financial years >110%)	>110%	120 – 125%
Gearing	<50 – 65%	<45%

Assumptions used to inform five and 30-year projections are as follows:

- Deposit interest rates 0.40%
- Average cost of borrowing 5.54% long term fixed and 1.0% variable.

A six-monthly update report will be provided to the Board of Management.