

Funding Strategy 2024-25

A glossary of terms is at the end of this document.

Langstane Housing Association's Treasury Management Policy 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; 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

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 2023:

Lender	Facility	Value of drawn funds to be repaid	Maturity date	Fixed / Variable	Interest rates
Bank of Scotland	Bi-lateral	£15.0m	April 2028	Variable	SONIA + 0.9%
Lloyds	Fully amortising	£ 0.8m + £11.9m	Sept 2028 and Dec 2031	Fixed	4.32+1% + 4.32+1.5%
Santander	Fully amortising	£ 8.1m	Aug 2035	Fixed	5.305% - 5.71%
Total		£35.7m			

The £25m Bank of Scotland revolving credit facility was replaced with a £20m bi-lateral revolving loan SONIA facility (with fixed rate optionality) in April 2023, £15m of which is drawn. Whilst the bilateral facility was being negotiated, the opportunity to put all the properties held as security for this loan into a Trust was taken.

Within the financial year 2024-25, it is anticipated that no further draw-down of funds will take place. Future plans will only include additional borrowing for specific projects that can demonstrate a positive impact on the Association's long-term position.

Longer term given Langstane's ambition to return to development activities, it is the intention to explore options such as converting the Bilateral Revolving Loan 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.

Langstane currently owns 2,879 general needs homes of which 1,295 are held as security. This means that 45% of Langstane's homes are encumbered against an internal target of no more than 65%. This gives considerable head room to meet future ambitions.

In addition, Langstane has been working on its unencumbered homes, making these loan ready. This work continues during 2024-25.

Any additional funds generated through the sale of assets will be used to reduce the revolving credit facility / Bilateral Revolving Loan or to strengthen the Association's ability to attract future funding. All options will be presented alongside their impact on the Association's existing loan covenants.

A 30-year cash flow is contained within the financial projections and 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 2023-24, Langstane 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. A target of 60%:40% by April 2027 was set. As at 31 December 2023 this stood at 58%: 42%.

This will allow for a development programme to be determined and fixed rate funding to be achieved for longer term requirements.

Attached for information is the latest UK base rate forecast from ATFS, the Association's retained Treasury Management advisors (See Appendix 1 available to view).

The Association is tied into the fixed rates contained within the loan agreements. The fixed rate loans have interest rates considerably above the rates seen in previous years. The break clauses within these Agreements were significant, removing the attractiveness of replacing existing loans which are fully amortising. However, recently rates have risen

considerably, reducing the break clauses considerably. When considering longer term facilities to enable a return to development, this will be explored further.

The Bank of Scotland's bilateral revolving loan initially attracted more competitive interest rates and provides flexibility. However, the short-term nature of this facility, along with the uncertainty associated with interest rate rises means the Association minimises this type of funding.

Interest rates on deposit accounts are improving as the bank interest rate increases. At present the Santander account attracts 3.44% or 3.42% in a month of withdrawal with unlimited free access to the funds available. Funds held are more than £1m (£1,040,280 as at December 2023).

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. Interest of 0.8% is payable on the Corporate Money Market account.

Nationwide balances over £5,000 and below £10 million currently attracts an interest rate of 1.3% per annum. This is for an instant access account. We need to look to move this to an account with an improved rate, even to Santander which would earn an increased rate of interest although we should also examine using the funds to drawn down the RCF.

Going forward the RCF can be treated as instant access funding so we are no longer reliant on holding cash in Santander/Nationwide.

A short term deposit interest rate of 3% is used to inform five and 30-year projections.

The Bank of England base rate has increased consistently over the course of 2023 and is now 5.25% in February 2024 although is predicted that this has reached a peak and will now return to 2021 levels.

Cash flow and cash surpluses

During 2023-24, Langstane did not breach the Association's Treasury Management levels and all contractual legal and statutory payment obligations were made.

The latest 5-year cash flow projections extracted from the 30-year plan to be approved by the Board on 8 February 2024 are:

£000	2023-24	2024-25	2025-26	2026-27	2027-28
Cash at bank	2,934.4	1,517.6	1,602.5	1,673.9	2,028.9
Surplus from operating activities	3,083.4	3,068.1	2,986.2	3,152.1	3,325.9
Component spend	2,086.0	2,460.0	1,000.0	1,000.0	1,000.0

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%

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

Glossary

Term	Description
Amortising	A type of loan with scheduled, periodic payments that are applied to the loan's principal over the life of the loan
Capital market	Part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term investments
Cash flow	An accounting term that refers to the amounts of cash being received and spent by an organisation during a defined period of time, and the management of the cash receipts and payments of a business to ensure cash balances remain sufficient to ensure debts are paid as they fall due
Component spend	Components within the Association are broken down into elements of a home that have a certain lifespan e.g. kitchens, bathrooms, heating systems
Encumbered	This is when a home owned by the Association is held as security against a loan
Hedged	A hedge fund is a pooled investment fund that trades in relatively liquid assets and is able to make extensive use of more complex trading, portfolio-construction, and risk management techniques in an attempt to improve performance
Money market	This can be defined as the trade in short-term loans between banks and other financial institutions
Planned maintenance	Within the Association planned maintenance describes repair and maintenance activities that can be planned in advance – often these are linked with cyclical works that are required on a very regular basis e.g. painting and decorating

Term	Description
Revolving credit facility	<p>A loan which can be drawn, repaid and then drawn again, over a period of years – similar to a personal overdraft, but with security required</p> <p>A loan that provides the borrower with the ability to draw down, repay, and drawdown again</p>
Security	The granting of a mortgage over the Association’s stock to its lenders, which allows the lender to claim the proceeds from sale of the property to meet outstanding liabilities if the borrower fails to meet repayment obligations
SONIA	The Sterling Overnight Index Average. The overnight interest rate paid by banks for unsecured transactions in the British sterling market in circumstances where credit, liquidity and other risks are minimal. It is the new reference rate for UK lending
Treasury management	The management of the organisation’s borrowings, investments and cashflows, its banking, money market and capital market transactions and loan management; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks
Unencumbered	A property that is clear of debt or claims from third parties in the form of mortgages or loan security charges, and thus can be used to provide security for new debt
Unhedged	An unhedged investment is one that is fully exposed to the risk of currency fluctuations – the fund manager does not generally actively try and offset any dips or rises in the value of an investment caused by changes to currency values