**Kingsridge Cleddans Housing Association Ltd**

**Report to:** The Management Committee

**Date:**  September 23

**From:** Fettes McDonald, Finance Consultant

**Subject:** Treasury Management

**Purpose of this Report: To ask Committee to Note the current Treasury Management operations, including the amount & status of existing loans; the amount of stock secured against loans; future proposed borrowing; and management of cash available for investment.**

**INTRODUCTION**

The Association’s Treasury Management Procedure notes the requirement to report to the Management Committee at least once a year on treasury management operations. This report contains the following information-

* Stock valuation data as at 30/06/23
* Future proposed borrowings
* Projected cash flow position
* Interest earnings from surplus funds
* Compliance with policy
* Treasury strategy for the next 12 months

**STOCK VALUATION DATA**

When loan finance is taken out the Association is required to offer sufficient security to the lender so that in the event of an inability to repay the lender may sell the properties and use the proceeds of sale to repay the debt.

In social housing there are normally 3 bases on which stock shall be valued by lenders -

* Existing use value (basis 1)
* Existing use value with sales (basis 2)
* Market value subject to tenancies (basis 3)

The basis used is selected by the lender and will result in different stock valuation figures. The stock value (together with the asset cover requirements of the loan agreement) determines how much can be borrowed at the outset.

Currently the Association has no debt in place therefore no loan covenant compliance matters to consider.

Appendix I to this Report notes the results from the recent updated valuation of all stock.

On an existing use valuation basis the stock values at £11.710m for the 292 properties. The average value ranges from £29k per unit to £44k per unit. If valued on a MVST basis the total stock value is £23.440m and the average value ranges from £59 to £95k per unit.

**FUTURE PROPOSED BORROWINGS**

Currently the Association has no plans to secure new borrowing. This may change on publication of EESSH2 guidance.

On an EUV basis the Association could borrow £10.6m using an asset cover ratio of 110%. On the MVST basis KCHA could borrow £18.75m using an asset cover ratio of 125%.

This does not mean that the Association could afford to pay such amounts (in the absence of additional income), it simply means that if the business plan indicated new houses being built then, subject to a viable proposition, there is an ability to borrow. Similarly, if material added EESSH 2 costs arose then rent increases may be required to pay for or contribute to these costs.

**PROJECTED CASH FLOW POSITION**

At 31 March 23 the Association had overall cash resources of £2.05m. The annual budget for 23/24 assumed an opening cash balance of £2.02m.

The five year projections indicate a reasonable cash position over the short to medium term. Average cash balances over the five years are around £2.06m.

**INTEREST EARNINGS FROM SURPLUS FUNDS**

In 22/23 interest earnings from various deposits totalled £16,974.

Currently the Association has 5 deposits of £200k with BOS which expire between September 23 and June 24. Interest rates range from 2.3% to 3.4%. In addition an 18 month deposit of £254k is placed with Nationwide until September 23 at a rate of 0.85%.

The treasury management policy (2021) takes account of the most recent regulatory guidance and the credit rating of financial institutions are taken account of when placing deposits.

**COMPLIANCE WITH POLICY**

There are no issues to be noted in respect of non-compliance with policy.

**TREASURY STRATEGY FOR NEXT 12 MONTHS**

The Association is relatively risk averse and the main intentions of the treasury activity are :

* effective management and control of risk
* to protect the capital sums held by the Association
* ensure sufficient liquidity for the Association in its day to day operations
* ensure access to sufficient resources for any future new build activities
* keeping loan costs to a reasonable level

No debt is in place so the plan for 23/24 is simply to continue to make short term deposits for up to 12 months in line with the treasury management policy.