Trivallis.

Finance Strategy:

2024 - 2029

www.trivallis.co.uk

Introduction

This strategy sets out how our financial framework will support the wider business in the delivery of the strategic framework and will outline the fundamental rules we will adopt to ensure Trivallis has long-term financial strength and sustainability.

Vision

To deliver long term financial sustainability through innovative and proactive financial leadership, which aligns financial policy, supporting and enabling the delivery of the Corporate Strategy.

Current situation

Our financial position is strong with considerable balance sheet capacity. We have a high internal credit rating and in 2024 we re-financed, demonstrating strong lender confidence. Our rents are low when compared to the rest of the Welsh Housing sector and are based on local earnings and affordability. In recent years our operating margin % has fluctuated due to the impact of COVID restrictions on the planned programme, but cash generation and our overall position has remained consistent.

Our 30-year business plan delivers the outcomes identified in the corporate plan including capacity to deliver EPC C energy standards by 2030, and 3,604 new homes in the next 30 years. It also includes the ending of the Welsh Government GAP funding in 2036/37. Growing the business organically and managing interest costs in the preceding years forms a crucial part of our planning over the next 10 -15 years.

What we will do

1. We will grow our operating margin over time and will continue to report on earnings before interest, tax, depreciation, amortisation, major repairs included (EBITDA MRI) internally. This will ensure we generate enough cash and reserves to fund future service delivery and investment in existing and new homes.

2. We will operate within a clear set of financial golden rules and reporting mechanisms to ensure we have capacity to absorb any unexpected financial challenges.

3. We will grow our business organically through the delivery of new homes to offset the loss of the GAP funding from 2037 onwards.

4. We will maximise the capacity of our assets to deliver our corporate objectives and create additional borrowing capacity where possible.

5. We will develop our Group structure and introduce new subsidiary companies provided they have a defined purpose, avoiding duplication and ensure transparency. They will be governed by an inter-group agreement.

6. We will participate in joint ventures and financial partnerships where risk and reward are clearly understood, and the outcome adds to the objectives of Trivallis.

7. We will ensure our financial policies and procedures are adhered to, ensuring robust internal control and efficient use of resources.

8. We will ensure our new development viability parameters add financial capacity into the long-term business plan.

9. We will provide timely and accurate reporting that will withstand external scrutiny, providing reliable and meaningful information to leaders and managers. This will be achieved in part through continued investment in integrated systems and process reviews.

10. We will ensure we have security ready assets in place to support future funding needs, ensuring we maximise its value.

11. We will regularly benchmark our financial performance, understanding how we differ from any sector-trends so that we are consciously aware of the financial impact of our investment decisions.

12. We acknowledge the financial challenges around funding the decarbonisation of our homes and delivering energy rating EPC A for our homes. We will research and where appropriate, participate in innovative funding solutions that will deliver improved energy efficiency with a clear financial benefit to tenants and Trivallis.

13. We will have a clear approach to demonstrating and delivering Value for Money (VFM) to all our stakeholders, continuing to embed VFM principles of efficiency and effectiveness in the way we work and deliver services.

14. Our procurement approach will be innovative and solution orientated, but also robust and transparent, delivered to support the needs of the organisation.

Key principles

These are the fundamental rules and guidelines we will adhere to, serving as the foundation of the strategy:

- Our long-term business plan will be constructed using a set of reasonable economic assumptions, with the delivery of the corporate plan and VFM its key deliverables.
- We will regularly stress-test our business plan to break-point, against a series of scenarios to fully understand its headroom and what mitigations would be required to ensure ongoing viability.
- Our rent and service charge policy will be linked to local earnings, demonstrating affordability as its central pillar, ensuring we generate enough income to maintain future investment in service delivery and quality of homes.
- When raising new finance our aim is to outperform our business plan assumptions and not the financial markets. Our Treasury Management activity will be managed by a clear set of policy rules. A short-term Treasury strategy will be periodically approved by Finance Committee when new finance is needed or we restructure existing facilities. This will be supported by external advisors to ensure robust control and VFM.
- Trivallis will be resourced with the appropriate skills and experience to ensure the highest financial governance standards are maintained.
- We will work with Board, Senior Leadership and all budget holders to develop financial skills and understanding, ensuring effective management of key financial issues across the organisation.

Strategic targets / golden rules

What do we need:

We will work within these guidelines to protect the business over the medium to long-term, ensuring there's enough headroom in early years to manage interest costs and thus interest cover in later years i.e. making sure we don't borrow too much in early years. We will ensure all development adds financial capacity to the business and doesn't reduce it. Where we invest capital into projects, we will aim to create additional financial capacity. Investments into existing assets will create longevity in asset lives.

Proposed golden rules:

Operating margin above 15%

A minimum of 18 months liquidity

Interest cover (EBITDA MRI):

- From 2024–25 – to the GAP funding cessation in 2026/37 – on average over 200%, assessed annually, with a minimum of 120% in any one given year.
- From 2036–37 onwards – a 5-year rolling average of 120% with a minimum of 110% in any one year.

Gearing 50% (historical costs (inc. WIP) to net debt

Intra group funding capped at £20 million

An internal credit rating equivalent to A2 using the Moody's credit rating scale. This will be independently tested at least bi-annually by our independent Treasury advisors following the update of the business plan.

Annual approved development programme adds financial capacity to the organisation

Clean external audit management letter

The above golden rules will be reviewed as part of the annual treasury strategy process to assess their suitability.

Risks

The business plan will be regularly stress-tested to identify the key financial risks that have the biggest impact. The Board will approve mitigation strategies as part of the stress test.

We operate a dynamic risk register where financial impact is a key aspect of risk assessment. Financial risks will be regularly evaluated to ensure the mitigation of them does not limit the overall of delivery of the corporate plan.

Conclusion

This strategy demonstrates how we will use our financial strength and capacity to deliver the corporate plan outcomes and the guiding financial principles we will work to. Long-term financial sustainability is crucial to the organisations long-term success and the strategy shows how strong financial governance will be at the heart of how we work in order to deliver on our ambitions.

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