

TREASURY MANAGEMENT POLICY 2017

1.0 STATEMENT OF PRINCIPLES

The Association's Treasury Management Policy will be operated by the following principles:

- (i) The Association regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured.
- (ii) The Association acknowledges that effective treasury management will provide support towards the achievement of its Corporate Management Plan objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management.
- (iii) The Association is committed to the highest standards of governance and acknowledges the importance of transparency, integrity and accountability in its treasury management activities. In particular the Association will comply with the Scottish Housing Regulators guiding standards:
 - **Guiding Standard 4.4 Risk Management**
'We identify and appraise the most important risks we face and we take a prudent approach to managing them.'
 - **Guiding Standard 4.5 Ethical Standards**
'We conduct our affairs with honesty and integrity'
 - **Guiding Standard 4.6 Financial Viability**
'We are a financially sound and viable business'
 - **Guiding Standard 4.7 Financial Management**
'We have a robust financial management framework in place'.
- (iv) The Association will comply with the Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross Sectional Guidance Notes (2011 Edition), "the Code".
- (v) The Association will also comply with the Scottish Housing Regulators Treasury Management Regulatory Guidance published in August 2015. .

2.0 SCOPE OF POLICY

This policy sets out the Association's policy concerning all of its funding or borrowing from external sources and the lending or investment of surplus cash balances. In addition, the policy covers cash and cash flow management and details the Association's delegation of responsibility for treasury activity and its reporting requirements.

3.0 DEFINITION OF APPROVED TREASURY ACTIVITIES

The Association defines its treasury management activities as:

“The management of the organisation’s 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 principal activities of treasury management are:

- ✓ Borrowing for housing capital projects.
- ✓ Borrowing for any other one-off purposes.
- ✓ Investment of surplus funds
- ✓ Arranging overdraft facilities
- ✓ Managing our own resources to fund capital projects

4.0 RISK MANAGEMENT

All treasury management activities involve risk and potential reward.

The policy of the Association in the investing of cash is to achieve a satisfactory return while minimising risk. The overriding principle is to avoid risk rather than to maximise return.

The policy of the Association in borrowing funds is to ensure the stability of the Association’s long-term financial position by borrowing on the most favourable terms available while also considering the terms of the loan agreements and financial covenants.

4.1 Liquidity Risk Management

The Association will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it, at all times, to have the level of funds which are necessary for the achievement of its objectives.

4.2 Interest and Inflation Rate Risk Management

The Association will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements. The effects of varying levels of inflation, insofar as they can be identified as impacting on treasury management activities, will be controlled by the Association as an integral part of its strategy for managing its overall exposure to inflation.

4.3 Investment Risk Management

The Association regards a prime objective of this policy to be the security of the principal sums it invests. Accordingly, it will ensure that the deposit takers and limits reflect a prudent attitude towards organisations with which funds may be deposited. Investment activities will be limited to methods and techniques set out in the schedule to this document.

4.4 Refinancing Risk Management

The Association will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, with a view to obtaining offer terms for renewal or refinancing, which are competitive and as favourable to the

organisation as can reasonably be achieved in the light of market conditions prevailing at the time. It will actively manage its relationships with other parties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding. Unless circumstances and prevailing market conditions dictate otherwise.

4.5 Legal and Regulatory Risk Management

The Association will ensure that all of its treasury management activities comply with its statutory powers (rules) and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. The Association recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Association.

4.6 Fraud, Error and Corruption, and Contingency Management

The Association will ensure that it has taken all reasonable precautions to limit its exposure to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures to these ends. The fraud register will be available for inspection by the Finance, Audit & Corporate Governance Committee once a year.

5.0 FORMULATION OF TREASURY MANAGEMENT STRATEGY

As part of the annual budget and in accordance with the CIPFA Code, the Head of Finance & Corporate Services will prepare for the approval of the Management Committee the strategy and plan to be pursued in the coming financial year to manage its financial affairs.

In preparing such a report, the Head of Finance & Corporate Services will have due regard for:

- ✓ The aggregate of all funds, borrowings and accounts operated by the Association
- ✓ The maintenance of the Association's financial stability and its ability to meet its short, medium and long term financial commitments
- ✓ The Association's desire to meet its Corporate Management Plan objectives and service requirements
- ✓ The prevailing economic circumstances and forecasts.

6.0 APPROVED METHODS OF RAISING LOAN FINANCE

Borrowing for capital finance should be restricted to conventional (capital and interest) mortgage loans and bond finance.

The Head of Finance & Corporate Services, in conjunction with the Director, undertakes on its behalf the borrowing activities of the Association. However, all borrowing is subject to the consideration and approval of the Finance, Audit & Corporate Governance Committee. The Management Committee will be updated on all borrowings through the appropriate minutes.

Loan finance will be raised either on a programme basis or a project by project basis with no minimum application. The current market conditions and consideration of the future market should be a factor in considering the most appropriate basis of raising

funds. The amount of finance required will, under normal circumstances, depend on future capital expenditure requirements and anticipated levels of grant from the Scottish Government or other bodies.

A minimum of three lenders (if available) should be invited to tender for the provision of loan finance. The Head of Finance & Corporate Services will prepare a report for the Finance, Audit & Corporate Governance Committee for each proposed capital borrowing. The report will include:

- ✓ Proposed lender
- ✓ Lenders track record and association, if any, with the Association
- ✓ Borrowing required
- ✓ Interest rate structure
- ✓ Basis of interest rates
- ✓ Loan period
- ✓ Whether or not a capital repayment holiday is being offered
- ✓ Lender's margin
- ✓ Arrangement fees
- ✓ Non-utilisation fees
- ✓ Legal Fees
- ✓ Securities required
- ✓ Arrangements for draw down and impact on cash flows
- ✓ Highlight any savings for loan refinancing exercises
- ✓ Comparison with alternatives
- ✓ Assessment of potential loan documentation
- ✓ Loan Covenants
- ✓ Penalty clauses
- ✓ Early redemption costs
- ✓ Compliance with annual treasury management strategy
- ✓ Any other matters which might assist the Committee in reaching a decision.

In all cases, the loan finance will be subject to the following parameters:

- (i) Security given to any lender should be granted by way of a fixed charge.
- (ii) The Association's gearing ratio (i.e. loans as a proportion of historic cost of fixed assets should not exceed 46%;
- (iii) The maximum loan repayment period will be 30 years.

Bond finance will be compared to the traditional conventional loans as an option when considering capital finance.

The Association will not use hedging instruments, which control risks, such as freestanding derivatives e.g. interest rate swaps.

7.0 APPROVED SOURCES OF FINANCE

In order to eliminate exchange rate risk, all borrowing should only be in sterling. The Association will not deal in foreign currencies.

In securing loan finance, the Association can only borrow from the following institutions:

- ✓ High Street Clearing Banks

- ✓ Building Societies
- ✓ Companies offering Bond Finance

The Head of Finance & Corporate Services is responsible for closely monitoring the terms and conditions offered by lenders. Where he/she has reason to believe that the lenders credit rating is or may become impaired, he/she should advise the Treasurer.

The overriding borrowing limit for the Association, in accordance with its Rules is £50m.

8.0 INVESTING SURPLUS FUNDS

All money held by the Association should be aggregated where possible in order to optimise the return and improve treasury controls. In all investment activity, the Association should have due regard to risk and should seek to minimise risk at all times.

Cash deposits may only be made with the following institutions, subject to an upper limit with any one institution subject to a maximum of £1,750,000:

- ✓ High Street Clearing Banks
- ✓ Building Societies

Investments will be undertaken in accordance with the Association's Rules. A pro-forma form will be used to record investment decisions. This is attached at **Appendix 1**. No investment should be made for greater than 12 months.

The Head of Finance & Corporate Services is responsible for closely monitoring the credit standing of approved deposit takers. Where he/she has reason to believe that the deposit taker's standing is or may become impaired, he/she should advise the Treasurer.

9.0 INTEREST RATE EXPOSURE

The Association should adopt a relatively risk averse policy on interest rate management and should favour fixing interest rates if the financial and economic conditions are suitable.

However the proportions of fixed and variable rate loans will depend on the projected cash flows of the assets being funded and the general liquidity of the Association. In addition, factors such as current interest rates compared to historical trends, estimates for future interest rate movements and the impact of interest rate movements on the business plan and cash flows will also be considered. These factors will be reviewed annually and will determine any change in policy regarding interest rate exposure.

The broad parameters regarding fixed and variable rate loans are as follows:

Maximum Variable Rate Loans	50%
Maximum Fixed Rate Loans	80%

10.0 CASH & CASH FLOW MANAGEMENT

The Head of Finance & Corporate Services will be responsible for monitoring cash levels. Cash flow projections will be prepared on a regular and timely basis and the Head of Finance & Corporate Services will be responsible for ensuring that these are adequate to meet current and future liabilities. A minimum balance of £200,000 will be held in the current account / interest bearing account at any point in time.

The balance of the Association's main current account should not exceed £25,000, with any funds in excess of that figure being transferred to an interest bearing account.

11.0 LEGAL ISSUES

Prior to entering any borrowing or investment transactions, it is the responsibility of the Head of Finance & Corporate Services to ensure, by reference to the Association's legal advisors if necessary, that the proposed transaction does not breach any statute, external regulation or the Association's own Financial Regulations.

The Head of Finance & Corporate Services is the officer responsible for monitoring compliance with the Money Laundering Regulations 2007. Employees are required to report any suspicions of money laundering where the money is generated through criminal activity. Any such suspicions should be reported to the Head of Finance & Corporate Services in the first instance or, if necessary, directly to the Finance, Audit & Corporate Governance Committee.

12.0 USE OF EXTERNAL SERVICE PROVIDERS

The Association recognises the potential value of employing external providers of treasury management services, in order to access specialist skills and resources. When it employs such service providers, it 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 subjected to regular review. And 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 Head of Finance and Corporate Services.

13.0 STAFF TRAINING & QUALIFICATIONS

The Association recognises the importance of ensuring that all staff involved in the treasury management function is fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

14.0 DELEGATION

The Association recognises the importance of appropriate levels of clarity and segregation of responsibilities for treasury activities. Accordingly, the scheme of

delegation for the operation of the Treasury Management policy is set out in **Appendix 2**.

15.0 REPORTING ARRANGEMENTS

The Head of Finance & Corporate Services will prepare a report once a year to the Finance, Audit & Corporate Governance Committee which will contain information on the following matters:

- ✓ Treasury Management activity since the previous report
- ✓ Compliance with the Treasury Management Policy
- ✓ Compliance with external regulation and with loan covenants
- ✓ Compliance with the nine areas of risk contained within the CIPFA Code as follows:
 - Liquidity
 - Interest rates
 - Inflation
 - Credit & counterparty
 - Re-financing
 - Legal & Regulatory
 - Fraud, error and contingency management
 - Market

The Association's Annual Budget will include current and projected cash balances and a quarterly cash position will be incorporated in the quarterly management accounts submitted to the Management Committee during the course of the financial year.

16.0 CORPORATE GOVERNANCE

The Association is committed to the pursuit of proper corporate governance throughout its activities and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance & Corporate Services will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

17.0 CURRENT LOAN DOCUMENTATION

Notwithstanding the above, consideration should be taken into account of the restrictions within the Associations current loan documentation when deciding on all treasury management options. This includes seeking prior written consent to borrow from another source.

18.0 DATE OF NEXT REVIEW

This policy will be reviewed at least every 3 years.

Anne Smith
Head of Finance & Corporate Services / Depute Director

POLICY REVIEW & CONSULTATION PROCESS:

Reviewed by Management Team:	Not reviewed
Recommended by the Finance, Audit & Corporate Governance Committee:	9th November 2017
APPROVED BY THE MANAGEMENT COMMITTEE ON	26th April 2018
Date of next Review	September 2020

Approved

**PRO FORMA FORM
DEPOSITS – SHORT TERM**

Cash Balance	£
Cash requirements for short term:	£
Amount of funds to be placed on deposit:	£

Institutions:

1 month	2 months	3 months	6 months	9 months	12 months
%	%	%	%	%	%

Reason for investment:

Decision for deposit:

Rate	Term	Maturity Date
%		

Confirmed by:

Head of Finance & Corporate Services	Director
Date:	Date:

Treasury Management Policy**Delegated Authority for Treasury Management Policy**

Delegated Power	Exercised by
Approval and amendment of Treasury Management Policy	Management Committee
Amendments to lists of counterparties	Finance, Audit & Corporate Governance Committee
Approval of Annual Treasury Management Strategy – Per Annual Budget	Management Committee
Approval of new borrowing	Finance, Audit & Corporate Governance Committee
Application of additional surplus funds for investment purposes	Head of Finance & Corporate Services / Director
Application of approved strategy	Head of Finance & Corporate Services
Treasury dealing with counterparties	Head of Finance & Corporate Services
Investing surplus cash and agreeing term of notice on deposits	Head of Finance & Corporate Services / Director
Opening new bank accounts or building society accounts	Head of Finance & Corporate Services / Director
Borrowing and lending documentation	Head of Finance & Corporate Services / Director under authority of Committee of Management
Reporting on treasury activity to Committee	Head of Finance & Corporate Services