

TREASURY MANAGEMENT POLICY 2019

1.0 STATEMENT OF PRINCIPLES

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

The Association will comply with the Scottish Housing Regulator's Standards of Governance and Financial Management and the associated statutory guidance.

- (i) 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 (2017 Edition), "the Code".
- (ii) The Association will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Association will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- iv) The Association's Management Committee will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- v) The Association delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Finance, Audit and Corporate Governance Committee, and for the execution and administration of treasury management decisions to the Director of Finance and Corporate Services, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- vi) The Association nominates the Finance, Audit and Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.0 POLICY STATEMENT

- 2.1 The Association defines its treasury management activities as: The management of the Association'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 consistence with those risks.

- 2.2 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. Accordingly, the analysis and recording of treasury management activities will focus on their risk implications for the Association, and any financial instruments entered into to manage these risks.
- 2.3 The Association acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 2.4 The Association acknowledges that the control and management of risk is the primary objective of its treasury management activities. Investment objectives are therefore to minimise the risk of capital loss, maintain adequate but not excessive cash resources and to achieve a satisfactory investment yield, whilst minimising the risk.
- 2.5 The Association's borrowing will be affordable, sustainable and prudent and consideration will be given on a regular basis to interest rate risk. Consideration should be taken into account of the restrictions within the Association's current loan documentation when deciding on all treasury management options. This includes seeking prior written consent to borrow from another source.

3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

TMP1 Risk Management

3.1 Credit and Counterparty Risk Management

This risk is identified as the risk of failure by a third party to meet its contractual obligations to the Association under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Association's capital or current resources.

The Association will ensure that its counterparty lists and limits reflect prudent attitude towards organisations with whom funds may be deposited, and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP 4.

Approved Sources of Finance

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

- ✓ UK Clearing Banks, regulated by the FCA
- ✓ UK Building Societies, regulated by the FCA
- ✓ Companies offering Bond Finance

The Director 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.

Investment of Surplus Funds

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:

- ✓ UK Clearing Banks, regulated by the FCA
- ✓ UK Building Societies, regulated by the FCA

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 Director 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.

3.2 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 available which are necessary for the achievement of its objectives.

The Association will only borrow in advance of need when there is a clear case for doing so for the current capital programme or to finance future debt maturities.

The Director 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 Director 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.

3.3 Interest 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 as amended in accordance with TMP6.

It will achieve this by the prudent use of approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

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 variable rate loans are as follows:

Maximum Variable Rate Loans 50%

3.4 Inflation Risk Management

The Association will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposure.

3.5 Refinancing Risk Management

The Association will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of the market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

If the Association intends to raise capital for new project or intends to refinance the whole or part of its debt, regard shall be given to:

- The level of security required
- The maximum level of assets that could be provided as security, without affecting existing loan covenants
- Costs involved in execution of new agreements
- The forecast effect on the Association's long-term cash flows
- The level and nature of interest rates charges and whether these are fixed or variable.

3.6 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.

Prior to entering any borrowing or investment transactions, it is the responsibility of the Director 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.

3.7 Fraud, Error and Corruption, and Contingency Management

The Association will ensure that it has identified the circumstances which may expose it 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, and will maintain effective contingency management arrangement to meet this end.

Policies and procedures will be regularly subject to Internal Audit. The Director of Finance and Corporate Services will present a report regarding insurance cover annually to the Finance, Audit and Corporate Governance Committee and the Business Continuity Plan will be reviewed annually.

3.8 Price Risk Management

The Association will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance Measurement

- 3.9 The Association is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management Policy Statement (Section 2.0)

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Association's stated objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out TMP6.

Average return on cash investments and average interest rate paid on loan balances outstanding will be reported on an annual basis to the Management Committee. Where possible this will be benchmarked against other RSLs performance in this area.

TMP3 Decision Making and Analysis

- 3.10 The Association will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into

account at the time. The issues to be addressed and processes and practices to be pursued in reaching those decisions are detailed in this document.

TMP4 Approved Instruments, Methods and Techniques

3.11 The Association will undertake its treasury management activities by employing only those instruments, methods or techniques detailed in this policy and within the limits and parameters defined in TMP1 Risk Management. The approved approaches are:

- Standard capital and interest mortgages
- Bond finance

The Director of Finance & Corporate Services, in conjunction with the Chief Executive, 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 Director 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
- ✓ Lender's 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.

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

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

- 3.11 The Association considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the reduction of the risk or fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is all times clarity of treasury management responsibilities.

The principle on which this will be based is the a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Association intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance and Corporate Services will ensure that the reasons are properly reported in accordance with TMP6, and the implications properly considered and evaluated.

The Director of Finance and Corporate Services will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Finance and Corporate Services will also ensure that at all times those engaged in treasury management will follow policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The delegations to the Director of Finance and Corporate Services in respect of treasury management are set out in Appendix 2 to this document. The Director of Finance and Corporate Services will fulfil all such responsibilities in accordance with the Association's policy and TMPs and, if a member of CIPFA, the Standards of Professional Practice on treasury Management.

TMP6 Reporting Requirements and Management Information Arrangements

- 3.12 The Association will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of these policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or

other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Management Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year – this will be part of the budget report presented to Committee.
- Quarterly Management Accounts which will include details of treasury management activity and compliance with loan covenants.
- An annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy or TMPs.

The Finance, Audit and Corporate Governance Committee, to which some treasury management responsibilities are delegated, will receive regular monitoring reports on treasury management activities and risks as part of the Quarterly Management Accounts. This Committee will also review, scrutinise and recommend the annual report on strategy and annual report on performance to the Management Committee.

For clarity, the Finance, Audit and Corporate Governance Committee, will have responsibility for initial scrutiny of treasury management policies and practices. Policies will be approved by the Management Committee.

TMP7 Budgeting, Accounting and Audit Arrangements

- 3.13 The Director of Finance and Corporate Services will prepare, and the Association will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1, TMP2 and TMP4. The Director of Finance and Corporate Services will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6.

The Association will account for its treasury management activities, for decisions made and transactions executed, in accordance with the appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 Cash and Cash Flow Management

- 3.14 Unless statutory or regulatory requirements require otherwise, all monies in the hands of the Association will be under the control of the Director of Finance and Corporate Services., and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance and Corporate Services will ensure these are adequate for the purposes of monitoring compliance with TMP1.

TMP9 Money Laundering

- 3.15 The Association is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. Reports of any suspicious activity should be made to the Director of Finance and Corporate Services or directly to the Finance, Audit and Corporate Governance Committee.

TMP10 Training and Qualifications

- 3.16 The Association recognises the importance of ensuring that all staff involved in the treasury management function are 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 to staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance and Corporate Service will recommend and implement the necessary arrangements.

The Director of Finance and Corporate Services will ensure that the Finance, Audit and Corporate Governance Committee tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their need and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 Use of External Service Providers

- 3.17 The Association recognises that responsibility for treasury management decisions remains with the Association at all times. It recognises that there may be potential value in employing external service providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers it will ensure it does so for reasons which have been submitted to a full evaluation of 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 overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements always be observed. The monitoring of such arrangements rests with the Director of Finance and Corporate Services.

TMP12 Corporate Governance

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

The Association has adopted and has implemented key principles of the Code. This together with other arrangement detailed in this document is considered vital to the achievement of proper corporate governance in treasury management.

4.0 DATE OF NEXT REVIEW

This policy will be reviewed at least every 3 years.

Anne Smith

Director of Finance & Corporate Services / Depute Chief Executive

POLICY REVIEW & CONSULTATION PROCESS:

Reviewed by Management Team:	Not reviewed
Recommended by the Finance, Audit & Corporate Governance Committee:	7 th November 2019
APPROVED BY THE MANAGEMENT COMMITTEE ON	28th NOVEMBER 2019
Date of next Review	November 2022

Appendix 1

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:

Director of Services	Director of Finance & Corporate Services	Chief Executive
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 (detailed in TMP1)	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	Director of Finance & Corporate Services / Chief Executive
Application of approved strategy	Director of Finance & Corporate Services
Treasury dealing with counterparties	Director of Finance & Corporate Services
Investing surplus cash and agreeing term of notice on deposits	Director of Finance & Corporate Services / Chief Executive
Opening new bank accounts or building society accounts	Director of Finance & Corporate Services / Chief Executive
Borrowing and lending documentation	Director of Finance & Corporate Services/ Chief Executive under authority of Committee of Management
Reporting on treasury activity to Committee	Director of Finance & Corporate Services