Treasury Management Policy

Policy Implementation Checklist:	
Policy Guardian:	Head of Business Support
Policy Author:	FMD Finance Agents
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Resource Implications	

Contents

Section 1: Introduction

1.1 Treasury Management

This Treasury Management Policy is based upon the recommendations of the Code of Practice on Treasury in the Public Services issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) (2017 Edition).

1.1.1 The Code identifies three key principles:

- The Association should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

- The policies and practices should make clear that the effective management and control of risk are prime objectives of the Association's treasury management activities and that responsibility for these lies clearly within the organisation. The appetite for risk should form a part of the annual strategy including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.

- The Association should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives, and that, within the context of effective risk management, the treasury management policies and practices should reflect this.

1.1.2 The Association's Financial Regulations shall include the CIPFA Code recommended clauses in relation to treasury management.

1.1.3 Taking account of the large cash sums moving in and out of the Association it is important that appropriate Treasury Management procedures and practices are in place. Treasury Management is concerned with making appropriate use of surplus funds whilst meeting the overriding need to protect the capital sum and, in the case of borrowing, keeping costs to a minimum whilst ensuring the stability of the longer-term financial position.

1.1.4 Overall control of the Association's treasury management rests with the Management Committee who may delegate some of its responsibilities to the Audit and Assurance Committee. The Officers of the Association must not operate outside of the guidelines set out in this policy and are accountable at all times to the Management Committee for their actions and decisions.

1.1.5 It is essential that Committee Members are aware of and understand the decisions being made by the Association and their financial implications. The Management Committee is responsible for reviewing and monitoring the financial requirements of the Association in compliance with SHR Regulatory Standards, LHA's Financial Regulations and CIPFA's Code of Practice on Treasury Management. The Chief Executive Officer (CEO) shall ensure that Committee and Staff Members will be briefed and receive appropriate training as requested or required.

1.2 Equality and Diversity

1.2.1 Equality and diversity reflect the core values of Linthouse Housing Association. We strive to ensure these values are embedded throughout all of the services we provide in addition to our policies, procedures and decision-making. We are committed to promoting an inclusive and diverse culture that treats every individual with dignity, respect and fairness. We will actively challenge discrimination and empower people to succeed.

1.2.2 We will ensure that we apply our Treasury Management Policy in a manner that is consistent with our Equality and Diversity Policy. We will not discriminate against anyone because of their age, sex, marital status, sexuality, disability, race, nationality, language or social origin, or other personal features including beliefs or opinions such as religious beliefs or political opinions.

Refer to our Equality and Diversity Policy for further details.

1.3 Our Mission

1.3.1 The Treasury Management Policy forms part of our mission to:

"deliver high quality and cost-effective housing services designed to meet the needs of existing and future customers. To work in partnership with others to create thriving communities that people want to live and work in".

1.4 Our Vision and Values

1.4.1 Our vision is the creation and sustainment of lasting, unique, vibrant homes in stable, popular and ambitious urban communities. Our vision is underpinned by four core values which we apply to all areas of our business. These are to be:

i. Customer Driven

ii. Honest

iii. Accountable

iv. Transparent

1.5 Our Organisational Culture and Customer Service Standards

1.5.1 Our **C.H.A.T** values as outlined form the foundation of our **L**isten, **H**ear, **A**ct **(L.H.A)** customer excellence and organisational culture programme. All staff receive training at induction on customer service standards and the organisational culture we promote. This includes reference to our Equality and Diversity Policy and a requirement to treat all of our customers with dignity and respect.

1.5.2 The organisational culture we promote is based on finding solutions to suit customer needs regardless of individual differences. In order to do this we will:

1. **Listen** - We are committed to listening to those we do business with, be that our customers, staff, stakeholders, regulators or funders, to ensure that our responses are reflective of what people are saying to us.

2. **Hear -** Once we listen and understand the need/demand/offer that is presented, we will ensure that we fully understand what is being said.

3. **Act -** Whilst we will think about what we do, we want to be known for acting swiftly to deliver solutions and for always keeping our promises.

1.5.3 Our Customer Service Standards aim is to ensure all of our service users receive an excellent standard of service. The Standards help define what our customers can expect when contacting or engaging with the staff in our office. It is available on our website, direct from the office, or in other formats as required.

Section 2: Treasury Management Policy Statement

2.1 *The Association defines its treasury management activities as:*
The management of the organisation's borrowings, 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.

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 reporting of treasury management activities will focus on their risk implications*

2.3 *The Association acknowledges that effective treasury management will provide support towards the achievement of its business objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.*

2.4 The overriding aim of the policy is to ensure that the Association will not be exposed to undue risk. In balancing risk against return the Association is more concerned to avoid risks than to maximise returns.

2.5 The Association comprises of a number of different operations or cost centres. Treasury Management allows the organisation to deal with the combined position of each cost centre within the Association in the most advantageous way. All funds of the Association should be aggregated for Treasury Management purposes.

Section 3: Regulatory Standards of Governance and Financial Management

3.1 The SHR Regulatory Standards which govern Treasury Management activities have been taken into account:

- RS3.1: The RSL has effective financial and treasury management controls and procedures, to achieve the right balance between costs and outcomes. The RSL ensures security of assets, the proper use of public and private funds, and access to sufficient liquidity at all times.

- RS 3.2: The governing body fully understands the implications of the treasury management strategy it adopts, ensures this is in the best interests of the RSL and that it understands the associated risks

- RS 3.5: The RSL monitors, reports on and complies with any covenants it has agreed with funders. The governing body assesses the risks of these not being complied with and takes appropriate action to mitigate and manage them

3.2 SHR guidance (August 2015) contains the regulatory expectation that an RSL will comply with the CIPFA Code.

Section 4: Risk Management

4.1 In considering risk management the Association will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy / suitability of this policy and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Association's objectives as set out in this policy.

4.2 The CIPFA Code of Practice details some of the key risks faced by a housing association's treasury operations and those considered relevant to the Association's operations are set out in this section.

4.3 The Association has considered the potential risks facing the Association should the Treasury Management procedures fail to be adhered to. Material additional interest costs or other charges and costs (potentially via loan covenant or condition breaches) could arise from the failure to follow these procedures properly. Should it be deemed that the Association is not complying with the conditions contained within this document, the Regulator may comment adversely on such matters. This could have an adverse effect on confidence in the Association by lenders, other partners and members.

4.4 In order to minimise the risk, the Association ensures the Treasury Management procedures are reviewed regularly and that all personnel are aware of their contribution to compliance and to the efficient and effective running of the Association. Furthermore, methods of validation and ensuring probity include an annual external audit, regular internal audit and reports to members and The Scottish Housing Regulator.

4.5 The main areas of borrowing risk are:-

a) Interest Rate Risks

Interest rate risk exposure arises when a change in interest rates has the potential to affect the value of an RSL's assets and liabilities. Too much variable rate debt means increasing interest rates result in higher interest payments and repayment costs. Conversely, too much fixed debt can result in opportunity losses because the Association cannot benefit from improving rates.

The main danger of interest rate risk is that the Association could face liquidity problems servicing debt as well as breaching lenders' covenants on interest cover percentages.

Inflation risk can impact on the Association's Treasury Management activities through the link with interest rate management. If the rate of inflation increases less than forecasted while fixed rate loan costs remain stable there is a real cost to the Association in terms of low inflation.

An appropriate hedging strategy will assist in minimising any adverse effects caused by increases in interest rates.

b) Liquidity Risk

This risk is where the Association has insufficient cash to meet its liabilities as they fall due. In this respect the Association will ensure that it has adequate, though not excessive, cash resources and borrowing arrangements at all times as are necessary for the achievement of its business objectives.

The use of monthly cash flow projections, together with appropriate monitoring, shall assist in reducing this risk.

c) Funding and Refinancing Risk

This is the risk that loans falling due which the Association does not have the cash resources to repay cannot be replaced at an acceptable cost. In addition funding risk can cover overdependence on one lender in the market.

d) Failure of Internal Control Systems

The risk of inadequate systems of control, reporting and performance measurement is not specific to Treasury Management. The Association is required to ensure that measures are in place to manage its overall exposure to risk in this area. This would include the risk of exposure to fraud, error and corruption. Accordingly, the Association will employ suitable systems and procedures and will maintain effective contingency management arrangements.

Regular reviews and documentation of financial practices and internal audits shall contribute towards reducing the potential for such risks.

e) Soft covenants

It must be borne in mind that a loan agreement can be broken, not just by a breach of covenants, but also by failing to meet deadlines, clauses or by failing to provide documentary evidence. It is now usual for companies to set up a calendar with all loan requirements and trigger dates for compliance such as insurance schedules, 5-year stock condition survey, annual valuation and quarterly returns.

The introduction of a check list for compliance with loan conditions, together with comprehensive records of contractual responsibilities and liabilities, should avoid such risks materialising.

4.6 The main areas of investment risk are:-

a. Risk of default by an Institution

This is where funds are deposited in a financial institution and are subsequently defaulted upon. This risk would previously have been regarded as low given the regulation of this area by the Prudential Regulation Authority (PRA, replacing FSA) and Bank of England but an increased awareness is required given all issues attaching to the current economic climate.

The Association regards a key objective of its treasury management activities to be the security of the principal sum it invests and the regular review of market data and commentaries and credit rating information shall assist in negating such risks.

b. Funds are invested for too long a term and liabilities fall due

This is where funds are invested in say a 6 month no access account and liabilities fall due by the Association which requires these funds to settle.

The inclusion of accurate detailed cash-flow projections within the annual budget document, quarterly cash flow updates with the Management

Accounts, appropriate budget monitoring and the regular updating of the long-term projections should assist in limiting this risk.

4.7 General Treasury Risk Considerations:-

a. Legal and Regulatory Risk

The risk that the Association itself, or an organisation with which it is dealing in its Treasury management activities, fails to act in accordance with its legal powers or Regulatory requirements, and that the Association suffers losses accordingly.

Legal advice, where appropriate, and regular monitoring of regulation advice and guidance, shall assist in reducing this risk.

The Association recognises that future legislative or regulatory changes may impact on its treasury management activities and, as far as it is reasonably able to do so, will seek to minimise the risks of these impacting adversely on the organisation.

Section 5: Treasury Management Approach

5.1 Responsibilities

a. Responsibility for implementing and monitoring rests with the Management Committee who may delegate some of its responsibilities to the Audit and Assurance Committee.

b. Only the Management Committee has the authority to commit the Association to borrowing facilities or to vary any existing loan documentation.

c. The CEO, in consultation with the Finance Agents, shall be responsible for making recommendations to Management Committee on borrowing and financing decisions.

d. Operational responsibilities relating to existing day to day loan arrangements and deposits are delegated to the CEO working in conjunction with the Finance Agents. This includes ensuring compliance with loan covenant and information requirements as well as the placing of deposits for up to 12 months in accordance with policy.

e. It is recognised that the CEO may have to execute a decision quickly, in relation to fixed interest opportunities, with no time available to refer the matter for Committee consideration. In all such instances the Director will consult with all available Office Bearers and a written report must be presented at the next available Management Committee meeting.

f. The Management Committee will oversee the overall risk approach by the Association to ensure it remains up to date and relevant. This Committee shall also take all reasonable steps to ensure that day to day controls are carried out by staff.

5.2 Approved Activities

a. Raising capital finance for capital projects.
b. Raising capital finance for stock acquisitions.
c. Investment of surplus funds.
d. Arrangement of short term overdraft facility.
e. Banking facilities

5.3 Approved Methods of Raising Capital Finance

a. Borrowing for term loans will normally be on a standard capital and interest basis.

b. Appropriate use may be made of capital repayment holidays.
c. Borrowing for development or bridging funding may be by overdraft.
d. Borrowing may not exceed £100 million in accordance with the Association's rules (Rule 18.1).

5.4 Approved Sources of Finance

a. The following organisations are approved currently as sources of funding:
   - Clydesdale Bank
   - Royal Bank of Scotland
   - Bank of Scotland
   - Santander UK
   - Unity Bank
   - CAF Bank
   - Nationwide Building Society
   - GB Social Housing

   The above list may be amended, with approval from the Management Committee, if other lenders enter into the market offering loan finance to Registered Social Landlords on attractive terms.

b. Before any new lender is added to the approved sources of funding, the Association must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the CEO in conjunction with the Finance Agents, and, where appropriate, a suitably qualified external Financial Investment Adviser. A written report will be submitted to the Management Committee advising of any request for a new institution to be added to the above list.

5.5 Interest Rate Exposure

a. The Association shall ensure that an appropriate mix of fixed and variable rate finance is in place. Currently it is considered that fixed rate finance of 0% to

25% represents a suitable mix for the Association. Any fixed rate arrangements shall also consider the maturity of fixed interest loans over periods ranging from 5 to 25 years subject to no major variations in rates being achieved over the different interest periods.

b. The potential for material breakage costs on any fixed rate arrangements, which would arise if the Association decides to 'break' the agreed fix, shall be considered as a part of the decision making process.

c. The Annual Treasury Management Report should contain information on current interest rate trends for the short, medium and longer term.

5.6 Approved Organisations for Investment

a. The following organisations are approved currently for investment purposes:
   - Bank of Scotland
   - Santander UK
   - Nationwide Building Society

   The list of approved financial institutions has been shortlisted from the institutions with a UK banking licence.

b. Deposits should only be placed with institutions which have ratings which satisfy certain criteria from at least two of the three recognised credit rating agencies (Moody's, Fitch and Standard and Poor's):

   - Moody's - 'P-1' - Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

   - Fitch - 'F1' - Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments.

- Standard & Poor’s – ‘A-1’ - An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's.

The credit worthiness of approved counterparties will be monitored by the Finance Agents. Any impairment to the credit worthiness of the approved counterparties will be advised to the Management Committee.

c. Sensible judgement should prevail in deciding whether to immediately remove the Association’s funds from fixed-term or notice deposit accounts (if it is possible to do so prematurely) of an approved deposit-taker, should its credit ratings fall below the minimum criteria set out above. Certainly, funds should be removed, at the very latest, at the end of the fixed-term (should it continue to fail to satisfy the minimum criteria at that time), or immediate notice should be given.

d. Credit ratings will be a key source of information but it is important to recognise that they have their limitations. The Association should also make use of generally available market information including quality financial press, market data and information on government support for banks.

e. If information becomes available which causes concern as to the deposit-taker’s ability to meet its financial commitments, regardless of its credit ratings, the Association should take all possible steps to repatriate its funds and place them with an institution it considers to be safer.

f. Before any investment is made with a new organisation, the Association must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the CEO in conjunction with the Finance Agents, and, where appropriate, a suitably qualified external Financial Investment Adviser. A written report will be submitted to the Management Committee advising of any new organisation that has been added to the above list.

g. The Association shall monitor the detail of the Financial Services Compensation Scheme or such similar schemes which may offer a degree of protection of funds.

5.7 Reporting

a. A report will be put to the Management Committee at least once a year on treasury management operations.

b. The annual report on Treasury Management operations must provide information on the following: -

- Details of current lenders
- Loan balances outstanding per lender
- Loan terms
- Expected settlement date
- Mix of fixed rate and variable rate finance
- Security cover provided, details of 'excess' security per lender and basis of valuation.
- Valuation update requirements in the year ahead
- Covenant compliance.
- Unencumbered stock and indicative valuation.
- Future proposed borrowing or refinancing for the financial year ahead
- Interest earnings from investment of surplus funds
- Forecasted cash flows and confirmation of no liquidity or covenant compliance.
- Market view of future interest rates over the next 12-36 months.
- A review of the approved sources of finance with reasons behind recommendation.
- A review of the approved organisations for investment with reasons behind recommendation.

- Any value for money considerations and benefits attaching to the treasury management function.

5.8 Compliance with policy

c. All recommendations to members on borrowing decisions must be provided in a written form and consider the following: -

- Borrowing requirements
- Sources
- Basis of interest rates
- Loan margin
- Borrowing period
- Repayment options and costs
- Assessment of documentation (including margin review and early repayment clauses and default clauses)
- Security (including release of security provision)
- Arrangement fees
- Non utilisation fees
- Draw down arrangements
- Hedging requirements from lender
- The implications of fixed rate arrangements (including breakage costs).
- Changes in existing loan terms
- Fixed/capped rates
- Capital repayment details
- Compliance with policy.

The report must contain a recommendation from the Finance Agents (and, where appropriate, a suitably qualified Financial Investment Adviser) in consultation with the CEO and provide costs and terms from all lenders approached.

d. The Association may periodically consider the early repayment of loan debt. Any such requests must be in a written form and any such prepayments require approval of the Management Committee.

e. Cash flow projections are considered a sound framework for effective cash management and shall be discussed at the Management Committee as appropriate to allow the monitoring of income, deposits and other treasury management issues.

f. All budgets and management accounts must include relevant information in respect of covenant compliance and liquidity.

g. Quarterly management accounts will contain information regarding all cash funds and deposits together with a projected cash flow statement for the next 12 months.

h. The Finance Agents shall prepare Loan Portfolio Returns in accordance with Scottish Housing Regulator guidance.

Section 6: Operation of Treasury Management Procedures

6.1 Investments

a. The Finance Agents, in conjunction with the CEO, will monitor the task of investing surplus funds.

b. Bank balances must be checked daily by the Finance Officer who is authorised to carry out inter account transfers on Bank of Scotland instant access accounts in order to assist in optimising interest income. In the event of holidays or other unavoidable reasons for the Finance Officer's absence, the Finance Assistant will carry out this role.

c. The Association, subject to working capital requirements, shall endeavour to maximise the use of term deposits. In this regard, consideration shall be given periodically to rates on offer from approved investment institutions.

d. The CEO will authorise the placing of term deposits.

e. Requests for deposit rates and funding terms shall normally be issued to three approved institutions and information received shall be recorded by the Finance Agents.

f. Given current sums available for investment there is a maximum sum of £4m that can be invested with any one institution on term (as opposed to instant access) deposit. This amount excludes any day to day working capital and instant access funds which must be held at a minimum of £750k.

g. The Association will not deposit funds denominated in a foreign currency

6.2 Loan Finance

a. Responsibility for negotiating development project finance lies with the Finance Agents who should liaise with the CEO and Depute CEO at all stages in the process.

b. The period of borrowing must not normally exceed 30 years and the Association reserves the right, if it is considered appropriate, to fund from its own reserves the balance of any project costs after deduction of grants, or to make a partial contribution to the overall project costs.

c. In selecting an appropriate lender the Association must give consideration to its current loan portfolio with regard to previous providers of finance in order to ensure an appropriate mix of lenders. It is acceptable that the Association can opt to go with one lender.

d. The Association shall obtain legal advice before agreeing loan documentation and no loan or other funding agreements can be entered into without the formal consent of the Management Committee. Any restrictive lending conditions must be fully explained and discussed before approving a new lending offer.

e. Whilst the Association shall seek to minimise the number of units on which security is granted at the outset, the terms of the overall funding package shall take precedence.

f. The Association must ensure that it has the permission (where required) of existing lenders to borrow additional funds and that any additional borrowing will not breach any existing covenants with existing lenders or increase the Association's risk exposure to a default situation where the lender will recall or re price existing loan finance.

g. The Association will not enter into any derivative transactions or enter into hedging arrangements that are regarded as being of a sophisticated nature.

h. The Association will not enter into any loan transactions that are index linked.

i. The Association will not borrow funds denominated in a foreign currency.

j. The Association will at no time grant any lender a Floating Charge over its properties.

k. The Association shall maintain records of stock valuations and shall arrange revaluations of stock where required for funding purposes or to comply with loan documentation.

6.3 Other Matters

a. The Association's banking facilities are currently held with the Bank of Scotland. Service levels and charges shall be reviewed on a regular basis by the CEO and Finance Agents in conjunction with the finance team.

b. The Finance Agents shall maintain regular contact with all funders and shall ensure provision of up to date and accurate information on the financial status of the Association in a timeous manner.

c. The Finance Agents shall ensure they have access to financial market commentaries and reviews on the likely future courses of interest and inflation rates to enable the Association to assess future treasury risks and scenarios and to permit the effective management and control and development of suitable risk management strategies.

d. 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 receive proper awareness training in this regard.

e. The Association must at all times, in carrying out the treasury management function, give consideration to the Rules of the Association, all applicable legislation, its Financial Regulations and Standing Orders, all existing loan agreements and guidelines issued by SHR, OSCR, FCA and the Scottish Government as appropriate.

f. The Association is committed to the pursuit of proper corporate 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 implemented the key principles of the CIPFA Code of Practice. This, together with the other arrangements detailed in this policy, is considered vital to the achievement of proper corporate governance in treasury management.

Section 7: Complaints and Review

7.1 Complaints

Our complaint handling procedure was established by the Scottish Public Services Ombudsman (SPSO). In accordance with housing law, we provide our tenants with thorough information pertaining to our complaint handling process. Moreover, we also advise all service users on their right to complain.

A complaint is defined as:

“An expression of dissatisfaction by one or more members of the public about the housing association’s action or lack of action, or about the standard of service provided by or on behalf of the housing association”.

If a customer remains dissatisfied about how we apply the Treasury Management Policy the complaint will be dealt with through our Complaint Handling Process. This includes escalating the complaint to the Scottish Public Services Ombudsman (SPSO).

7.2 Review

The Association’s Treasury Management policy and its system for ensuring effective compliance will be subject to regular review and at least every three years.

The Association shall review its Treasury strategy at least on an annual basis.

Appendix 1: Equality Impact Assessment

TITLE OF POLICY:	Treasury Management Policy
Strategic Outcome:	Aim of the policy is to ensure that in terms of Treasury Management the Association will not be exposed to undue risk.
What is the purpose of the proposed Policy?	To provide a framework for the effective management and control of LHA's treasury management activities.
Protected Characteristic Groups affected by the Policy	None
Who is the target audience of this policy or who is intended to benefit from the proposed policy and how? (ie. employees, service users, management committee etc.)	The policy is a framework for staff, the Management Committee, our Financial Advisors, lenders and any other agency involved in Treasury Management
List any existing documents, evidence, research which have been used to inform the EqIA (this must include relevant data used in this assessment)	None
Has any consultation involvement been undertaken with the Protected Characteristic Groups to inform this assessment? (please provide details of who and how consulted)	N/A
What is the actual likely impact?	The Treasury Management Policy is a framework to support more effective management and control of LHAs funds; therefore it should have a positive impact on all service users.
How have you, or will you, put the Policy into practice, and who is or will be responsible for delivering it?	Training to be provided by FMD, LHA financial consultants.
How does the Policy fit into our wider or related policy initiatives?	The policy fits in our wider related policy initiatives which are the creation and sustainment of lasting, unique, vibrant homes in stable, popular and ambitious urban communities.
Do you have a set budget for this work?	None