Clydesdale Housing Association	
Policy name & number	**01 - Finance Treasury Management Policy**
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Responsible Officer	**Finance Manager**

Clydesdale Housing Association will provide this policy on request at no cost, in large print, in Braille, in audio or other non-written format, and in a variety of languages.

CLYDESDALE HOUSING ASSOCIATION LIMITED

TREASURY MANAGEMENT POLICY

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1. Introduction

1.1 This Policy sets out the Association’s policy concerning treasury management.

1.2 In preparing this statement reference has been made to:

- CIPFA Treasury Management in the Public Services; Code of Practice and Cross Sectoral Guidance Notes (2017 Edition).

- Scottish Housing Regulator (SHR) Treasury Management Recommended Practice August 2015.

- Scottish Housing Regulator Regulation of Social Housing in Scotland: Our Framework, February 2019) Standards of Governance and Financial Management.

- The Rules of the Association

1.3 The Association adopts the key recommendations and principles of CIPFA’s Treasury Management in the Public Services; Code of Practice and Cross Sectoral Guidance Notes (2017 Edition).

1.4 The CIPFA 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.

1.5 Overall control of the Association's treasury management rests with the Management 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.

1.6 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, the Association's Internal Financial Control Policy and CIPFA's Code of Practice on Treasury Management. Committee Members will be briefed and receive appropriate training as requested or required.

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 and service 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 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.

2.5 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.

2.6 All funds of the Association should be aggregated for Treasury Management purposes.

2.7 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.

2.8 The Association shall review its Treasury Management Strategy at least on an annual basis.

3 Regulatory Standards of Governance and Financial Management

3.1 The SHR Regulatory Standards which govern Treasury Management activities have been taken into account (SHR: Regulation of Social Housing in Scotland: Our Framework, February 2019)

RS 3.1: The RSL has effective financial and treasury management controls and procedures, to achieve the right balance between costs and outcomes, and control costs effectively. 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 Treasury Management Code.

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.

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 cash flow projections, together with appropriate monitoring, shall assist in reducing this risk.

c. <u>Funding and Refinancing Risk</u>
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. <u>Failure of Internal Control Systems</u>
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.

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

e. <u>Soft covenants</u>
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.

The introduction of a check list for compliance with loan conditions should avoid such risks materialising.

4.6 The main areas of investment risk are:-

a. <u>Risk of default by an Institution</u>
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 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, 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.

5. Treasury Management Approach

5.1 Responsibilities

a. The fundamental principle of this policy is that overall control of the Association's treasury management rests with the Management Committee.

b. Whilst the day-to-day administration and control will be delegated to the Officers of the Association, the contents of this document can only be amended with the approval of the Management Committee.

c. Control by the Management Committee will be carried out through the appropriate controls and reporting procedures outlined in this document.

d. The Management Committee, in delegating the day-to-day operating of this policy, will ensure that the Officers involved are suitably qualified to undertake the responsibilities entrusted through both its recruitment and training policies. Responsibility for implementing and monitoring rests with the Management Committee.

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

f. The Finance Manager and Chief Executive shall be responsible for making recommendations to Management Committee on borrowing, investment and financing decisions.

g. Operational responsibilities relating to existing day to day loan arrangements and deposits are delegated to the Finance Manager and Chief Executive. This includes ensuring compliance with loan covenant and information requirements.

h. It may be necessary to execute a decision quickly, in relation to fixed interest or deposit opportunities, with no time available to refer the matter for Committee consideration. In all such instances the Finance Manager and Chief Executive will consult with all available Office Bearers and a written report must be presented at the next available Management Committee meeting.

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

j. Delegated Authorities are set out in Appendix A.

5.2 <u>General Principles</u>

a. The overriding aim of this Policy will be to ensure that at all times the Association will not be exposed to undue risk. This applies equally to both its investment and borrowing strategy.

b. The Association will also pursue a policy of maximising the interest it receives on the money it invests and of minimising the interest it pays on money borrowed. These objectives however will be secondary to the policy of minimising risk. The Association will also ensure that a proper system of internal controls exists to safeguard its assets. **(Security of Financial Assets).**

c. The Association must ensure that at all times value for money is being obtained. This will be achieved by examining all the costs and benefits relating to the decision to be made relating to investment or securing finance. **(Efficiency).**

d. In following this Policy, the Management Committee and the Officers of the Association must at all times give consideration to the Rules of the Association, the terms of their current loan agreements, conditions of deposits, the regulations and guidelines of Scottish Housing Regulator, The Scottish Government, OSCR, The Financial Services Authority Statute and the Common Law of Scotland **(Compliance with Statute).**

e. The Association will at all times ensure that they have access to sufficient resources to meet their ongoing obligations **(Liquidity).**

5.3 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

6. Borrowing Strategy

6.1 The borrowing objective is to keep the cost to a minimum consistent with the need to ensure stability of the Association's longer-term financial position.

6.2 The maximum amount of borrowing will be restricted by the rules of the Association (the limit is set at £500,000,000 in Rule 18.1), lending covenants, ability to repay the loan and asset cover. This will be tested through cash flow, balance sheet and income & expenditure projections.

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

6.4 Appropriate use may be made of capital repayment holidays.

6.5 Borrowing for development or bridging funding may be by overdraft.

6.6 No list of approved institutions will be maintained. Before any new borrowing arrangements are entered into the Association must satisfy itself, acting reasonably, that the organisation is financially stable. It will be the responsibility of the Finance Manager/Chief Executive, and, where appropriate, a suitably qualified external advisor to recommend suitable institutions to the Management Committee for approval.

6.7 In addition to traditional loan finance, the Association shall consider participating in aggregated bond finance alongside other Scottish RSLs.

6.8 The Association will not enter into any derivative transactions and will not borrow funds denominated in a foreign currency.

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

6.10 The Association will not enter into hedging arrangements that are regarded as being of a sophisticated nature.

6.11 The Association will provide security over property to the value agreed with the lender. 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.

6.12 All borrowing must have the prior approval of the Management Committee.

6.13 Final decisions on interest rates, loan terms and conditions of borrowing may be delegated to the Officers of the Association with all decisions ratified at the next Management Committee Meeting. The Officers are accountable at all times for their actions to the Management Committee.

6.14 <u>Interest Rate Exposure</u>

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 40% to 60% represents a suitable mix for the Association. The Management Committee may vary this mix if it is deemed appropriate to do so when considering the prevailing financial environment. Any fixed rate arrangements shall also consider the maturity of fixed interest loans over periods ranging from 5 to 30 years subject to no major variations in rates being achieved over the different interest periods.

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.

7. <u>Investment Strategy</u>

7.1 The primary investment objective is to optimise returns to the Association while meeting the overriding need to protect the capital sum.

7.2 In balancing risk against return, the Association is more concerned to avoid risk than to maximise return. The overriding principle guiding the investment of surplus cash is the preservation of the capital value of the Association's resources.

7.3 Professional advice from a suitably qualified external advisor may be sought to introduce procedures for investing cash balances in excess of an agreed working capital balance. This section of the policy will be updated in due course.

8. <u>Reporting</u>

8.1 A Treasury Management Strategy Report will be presented to the Management Committee annually before the start of the financial year.

8.2 The Treasury Management Strategy Report must provide information on the following:

- Details of current lenders
- Loan balances outstanding per lender
- Loan term
- Maturity profile of the existing borrowings
- Mix of fixed rate and variable rate finance
- Security cover provided to lenders
- Unencumbered stock
- Covenant compliance
- Future proposed borrowing for the financial year ahead
- Proposals for the investment of surplus funds for the financial year ahead
- Interest earnings from investment of surplus funds
- Forecasted cash flows and confirmation of no liquidity issues or covenant non compliance
- Market view of future interest rates

- A review of any approved sources of finance with reasons behind recommendation
- A review of any approved organisations for investment with reasons behind recommendation
- Compliance with policy.
- Proposals for amendments to the Treasury Management Policy Statement.

8.3 A Quarterly Treasury Management Report will be presented to the Management Committee.

8.4 The Quarterly Treasury Management Report must provide information on the following:

- Details of current outstanding borrowings showing lender, maturity, current interest rate, interest rollover date and outstanding balance
- Details of loan repayments and loan interest charges in the period
- Details of the investment of the Association's cash showing instrument, counterparty, maturity, current interest rate
- Covenant compliance
- Commentary on treasury management activity in the period
- Proposals for amendments to the Treasury Management Policy Statement
- Degree of compliance with the original strategy and explanation for any deviations.

8.5 An Annual Treasury Management Report will be presented to the Management Committee within 6 months of the year end.

8.6 The Annual Treasury Management Report will be comprehensive and cover the whole of the financial year's treasury activities and will provide information on the following:

- Details of current outstanding borrowings showing lender, maturity, current interest rate, interest rollover date and outstanding balance
- Details of loan repayments and loan interest charges in the period
- Details of the investment of the Association's cash showing instrument, counterparty, maturity, current interest rate

- Covenant compliance
- Commentary on treasury management activity in the period
- Proposals for amendments to the Treasury Management Policy Statement.
- Degree of compliance with the original strategy and explanation for any deviations.

8.7 All recommendations to Management Committee on borrowing decisions must be provided in a written form and consider the following:

- Borrowing requirements
- Details of proposed lenders including a brief description of their experience and understanding of the social housing market and
- Details of the proposed lender's credit rating
- 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)
- Details of arrangement and non utilisation fees, legal fees, valuation fees etc
- Draw down arrangements
- Details of financial covenant requirements and any other restrictive undertakings required together with an assessment of the Association's ability to comply therewith.
- Information requirements
- The implications of fixed rate arrangements (including breakage costs).
- Changes in existing loan terms
- Details of independent legal, financial and other advice
- Fixed/capped rates
- Capital repayment details

- Comparison with alternative lenders and a cost benefit analysis
- Compliance with policy
- Any other matters that will assist the Management Committee in arriving at its decision.
- The report must contain a recommendation from the Finance Manager and Chief Executive and, where appropriate, a suitably qualified Financial Investment Adviser and provide costs and terms from all lenders approached.

8.8 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.

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

8.10 Quarterly management accounts will contain information regarding all cash funds and deposits.

8.11 The Finance Manager will prepare Loan Portfolio Returns in accordance with Scottish Housing Regulator guidance.

9. Other Matters

9.1 The Finance Manager in liaison with the Chief Executive will carry out the task of investing surplus funds, when appropriate.

9.2 [redacted] [Policy detail redacted to reduce exposure to fraud.]

9.3 The Association, subject to working capital requirements, shall introduce procedures to maximise the return on cash deposits following advice from a suitably qualified external advisor.

9.4 Responsibility for negotiating development project finance lies with the Finance Manager and Chief Executive.

9.5 The period of borrowing must not normally exceed 30 years

9.6 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.

9.7 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.

9.8 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.

9.9 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.

9.10 The Association reserves the right, if it is considered appropriate, to fund from its own reserves the balance of any scheme costs after deduction of grants, or to make a partial contribution to the overall project.

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

9.12 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.

9.13 The Finance Manager 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.

9.14 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

9.15 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 Internal Financial Control Policy and Standing

Orders, all existing loan agreements and guidelines issued by SHR, OSCR, FCA and the Scottish Government as appropriate.

9.16 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.

Appendix A Delegated Authorities

Management Committee

The Management Committee will be responsible for:

1) Approving the Treasury Management Policy and subsequent amendments.

2) Approving loans (overdrafts or long term) and investment of surplus funds.

3) Agreeing staff responsibility and accountability for investing, raising loans and approving the procedures to be adhered to.

4) Agreeing the policy on interest rate exposure and how to respond to different interest rate regimes than that forecast.

5) Approving the annual treasury management strategy.

6) Noting the quarterly treasury management policy to ensure treasury management decisions comply with agreed policy and procedures. Approving any amendment to the strategy should it be appropriate to minimise risks.

Officers

The following powers are delegated to Officers:

1) The day-to-day administration of this strategy will be delegated from the Management Committee to the Officers of the Association.

2) Making recommendations to the Management Committee regarding treasury management strategy.

3) Making recommendations to the Committee regarding the procurement of private finance and investment of surplus funds.

4) Ensuring compliance with loan covenants and information requirements.

5) Ensuring an effective system of internal controls exist to safeguard the assets of the Association.

6) The Officers delegated to carry out the decisions of the Committee are the Chief Executive and the Finance Manager.

7) Officers of the Association will not be permitted to act outside the guidelines contained in this policy and are accountable at all times to the management committee for their actions and decisions.