



# Cloch Housing Association

## Treasury Management & Borrowing Policy

<b>Policy Name</b>	Treasury Management
<b>Policy Category</b>	FS
<b>Policy Number</b>	017
<b>Approved by</b>	Board
<b>Responsibility of</b>	Depute CEO – Finance, IT & Corporate Services
<b>Date Adopted</b>	01/10/2012
<b>Last Review</b>	01/11/2020
<b>This Review</b>	31/01/2024
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<b>Equalities Impact Assessment Required</b>	N/A
<b>Link to other policies</b>	004 Scheme of Delegation 016 Financial Regulations 059 Standing Orders
<b>Consultation</b>	N/A

## 1. Introduction

This document sets out Cloch Housing Association's (CHA's) Treasury Management Policy (the 'Policy'). CHA has adopted the key principles as set out in the CIPFA Code of Practice for Treasury Management in the Public Services 2021 edition (the Code) and in line with the expectations of the Scottish Housing Regulator (SHR) as set out in the Standards of Governance and Financial Management.

1.1 CIPFA recommends that all public (and quasi-public) service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following clauses:

*A. This organisation will create and maintain as the cornerstones for effective treasury management:*

- a treasury management policy (the 'Policy'), stating the policies, objectives, and approach to risk management of its treasury management activities.*
- suitable treasury management procedures (the 'Procedures'), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.*
- Investment management practices (IMPs) for investments that are not for treasury management purposes.*

*B. The Board will receive regular reports on its treasury management policies, procedures and activities including, as a minimum, an annual treasury strategy (the 'Strategy'), and the Depute CEO – Finance, IT & Corporate Services will prepare and present a report each quarter to the Finance & Corporate Services Sub-Committee of all treasury and investment activity.*

*C. The Board delegates responsibility for the implementation and regular monitoring of the procedures, including execution and administration of treasury management decisions, to the Depute CEO – Finance, IT & Corporate Services (the "Responsible Officer"), who will act in accordance with the organisation's Policy, Strategy and Procedures, and any other relevant professional standards.*

- 1.2 The content of the Policy and Procedures will address the 12 Treasury Management Practices (TMP) identified in the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.
- 1.3 CHA defines treasury management activities as: The management of CHA's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance, consistent with those risks.
- 1.4 CHA 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 for CHA, and any financial instruments entered into to manage these risks.
- 1.5 CHA 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 comprehensive performance measurement techniques, within the context of effective risk management.
- 1.6 The Scottish Housing Regulator's regulatory standards, (*February 2019*), which governs Treasury Management activities have also been taken into account within the policy:

### **Standard 3**

The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay.

### **Guidance**

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.

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.

3.3 The RSL has a robust business planning and control framework and effective systems to monitor and accurately report delivery of its plans. Risks to the delivery of financial plans are identified and managed effectively. The RSL considers sufficiently the financial implications of risks to the delivery of plans.

3.4 The governing body ensures financial forecasts are based on appropriate and reasonable assumptions and information, including information about

what tenants can afford to pay and feedback from consultation with tenants on rent increases.

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.

3.6 The governing body ensures that employee salaries, benefits and its pension offerings are at a level that is sufficient to ensure the appropriate quality of staff to run the organisation successfully, but which is affordable and not more than is necessary for this purpose.

3.7 The governing body ensures the RSL provides accurate and timely statutory and regulatory financial returns to the Scottish Housing Regulator. The governing body assures itself that it has evidence the data is accurate before signing it off.

## **2. POLICIES / OBJECTIVES / APPROACH TO RISK**

2.1 All treasury management activities involve risk and potential reward. CHA's policy in approaching treasury management risk is:

- when investing cash, the achievement of a satisfactory return while minimising risk. The overriding principle is to avoid risk rather than to maximise return.
- when borrowing funds, ensuring the stability of the Association's longterm financial position by borrowing on the most economically advantageous terms.

2.2 The Responsible Officer 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 thereof, and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving CHA's objectives in this respect.

2.3 To assist in measuring treasury risks and covenant compliance, CHA has chosen to adopt the following 'Golden Rules':

- The cashflow period or cash amount to be maintained as a minimum liquidity buffer is defined as 24 months; this means that the Association's Business Plan can be funded from drawn or arranged and secured funds for 24 months from the reporting date
- Gearing – the ratio of historic cost to debt is set at a maximum of 50% in the RBS loan agreement and 35% in the Bank of Scotland loan agreement; the Golden Rule is 30%
- Adjusted Operating Surplus or Earnings before Interest, Tax, Depreciation and Amortisation – Major Repairs Included ('EBITDAMRI') is another key covenant in the RBS loan agreement, set at a minimum of 110%; the Golden Rule is to maintain a ratio above 120%

### **3 Interest Rate Risk / Inflation Risk / Exchange Rate Risk**

- 3.1 CHA will manage its exposure to fluctuations in interest rates and inflation with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budget.
- 3.2 It will achieve this by the prudent use of its 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 or inflation. The above are subject, at all times, to the consideration of Policy or budgetary implications, and if required, formal Board approval of any changes thereto.
- 3.3 CHA will ensure that any hedging tools, such as embedded or stand-alone derivatives are only used for the management of risk and the prudent management of financial affairs and that the permitted (non-speculative) use of derivatives is clearly detailed in the Strategy and Procedures.
- 3.4 CHA will not enter into transactions that involve any exchange rate risk.

### **4 Refinancing / Credit and Counterparty Risk**

- 4.1 CHA will ensure that its borrowing, private financing, and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to CHA as can reasonably be achieved in the light of market conditions prevailing at the time.
- 4.2 CHA 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 source of funding if this might jeopardise achievement of the above.
- 4.3 CHA regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited. CHA will maintain a formal counterparty register in respect of those organisations from which it may invest, borrow, or with whom it may enter into other financing or derivative arrangements, which will record credit ratings and other relevant information.
- 4.4 Any amount borrowed must be within the Association's borrowing limit as authorised by the Governing Body and Association rules, stated as £50,000,000.

## 5 Liquidity Risk

- 5.1 CHA 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 to it which are necessary for the achievement of its business objectives.
- 5.2 No more than 75% of all Association funds should be held in a single financial institution.
- 5.3 CHA will consider and manage liquidity in two ways:
  - Short term Operational Liquidity, which will ensure that sufficient liquidity is maintained to meet short term funding needs
  - Capital Funding Liquidity, which will ensure that sufficient liquidity is maintained to fund projected commitments for 24 months from the current date
- 5.4 The principal factor governing the exposure of surplus funds is CHA's liquidity forecast. Where surplus funds are required to meet possible cash outflows in the near future they will necessarily be deposited for short periods which will ensure that funds are available when required.
- 5.5 Operational Liquidity required is measured as one month's operational expenditure, including unavoidable, staff and overhead costs; revenue, void and major repair (including component replacement) costs; loan interest and repayments. The measurement excludes all cash receipts except maturing bank deposits. The calculation should assume that grant and sales income does not occur when planned. The calculation will be reviewed and updated at least quarterly within the management accounts. Operational liquidity must be equal to the forecast cash outflow for the next calendar month, plus a contingency (or 'buffer') of 25%.
- 5.6 CHA defines operational liquidity as including:
  - a. Cash at bank
  - b. Cash on deposit which is available at no more than three days' notice
  - c. Confirmed but undrawn overdraft or revolving credit facilities
- 5.7 Capital Funding Liquidity required is measured as all cashflow projected in the 24 months from the projection date on the assumption that patterns of receipts and expenditure occur as projected.
- 5.8 CHA regards Capital Funding Liquidity as including:
  - a. Cash at bank
  - b. Cash on deposit which is available at no more than three days' notice
  - c. Confirmed but undrawn overdraft and revolving credit facilities available at no more than three days' notice

In considering availability of committed facilities, any forecast event which may influence CHA's ability to drawdown must be taken into account.

## **6 Legal and Regulatory Risk**

- 6.1 CHA will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements, and it will demonstrate such compliance.
- 6.2 CHA 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 CHA.

## **7 Operational Risk including Fraud, Error and Corruption, and Contingency Management**

- 7.1 CHA will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption, or other such eventualities in its treasury management dealings. Accordingly, it will implement suitable systems and procedures, and will maintain effective contingency management arrangements.

## **8 Adequacy of Security**

- 8.1 CHA will ensure that procedures are in place to ensure adequate security is available to facilitate drawdown when required.

## **9 Covenant Compliance**

- 9.1 CHA will ensure that financial covenants set by its lenders are always met. Any risk to compliance with any covenant will be highlighted to the Board and funders at the earliest opportunity.

## **10 Staff Training and Qualifications**

- 10.1 CHA will ensure that its officers are suitably qualified and/or experienced in respect of the treasury-related responsibilities assigned to them. Sufficient training will be obtained as necessary and access to appropriate external advisors will be provided if required.
- 10.2 At a minimum, it is expected that the Depute CEO – Finance, IT & Corporate Services will be Consultative Committee of Accounting Bodies (CCAB) qualified and have maintained their professional membership and Continuous Professional Development (CPD). Qualifications and memberships of new staff will be verified before employment is confirmed.



## **11 Performance Measurement**

- 11.1 The Treasury Management Strategy (TMS) will consider whether current loan arrangements continue to provide best value, or whether advantage might be taken from alternative sources or methods of finance. The review will take account of prevailing market conditions and the business circumstances of CHA. Comment on the findings will be made in the annual strategy.
- 11.2 Where applicable, the Depute CEO – Finance, IT & Corporate Services will, at least annually, review the level of returns being made on any investments held by CHA, with a view to assessing whether the current methods and instruments being utilised continue to represent good value. This will be reported in the TMS. Consideration will be given in the review to alternative methods of investment and investment instruments, and whether they might be used to increase the level of return on investments within the policy set by CHA. The assessment undertaken will include a comparison of the returns achieved by CHA with appropriate market comparators (including bank deposit rates) and will take into account other relevant factors, including management and transaction costs. Comment on the findings will be made in the TMS.

## **12 Decision Making Processes**

- 12.1 All treasury management decisions made during the year will be in accordance with the most recent TMS, unless specifically approved by the Board, and in compliance with the Rules, Standing Orders and Financial Regulations.
- 12.2 In making key decisions regarding its treasury management activities, CHA will ensure that proper consideration is given to all relevant factors. These will include:
- The powers of CHA and regulatory requirements
  - Budgetary constraints and business plan projections
  - Financial covenants
  - Prevailing and forecast economic conditions
  - Available funding and treasury management options
- 12.3 Any key decision will be informed by an appropriately detailed written report, covering as appropriate, the areas identified above. Such reports will be compiled by the Chief Executive Officer and Depute CEO – Finance, IT & Corporate Services for consideration and decision by the Finance & Corporate Services Sub-Committee and Board. The treasury management decisions made, following consideration of such reports, will be properly minuted and recorded as required by CHA's standing orders. The Depute CEO – Finance, IT & Corporate Services will be responsible for ensuring that the outcome of such decisions is effectively communicated to any officer of CHA who may be involved in implementing those decisions.



## 13 Responsibility for Treasury Management

13.1 The Board holds ultimate responsibility for all treasury activities. Authority Retained by the Board includes,

- Approval of the Business Plan
- Approval of the Policy and Treasury Management Strategy
- Approval of any in year changes to the Strategy that might be required to enable Procedure amendments
- Approval of all issues (including new funding) not otherwise covered by the Board approved Business Plan, Policy or Strategy
- Approval to open new bank accounts
- Approval of any new investment undertakings
- Approval of property purchases, other than those delegated via the Business Plan
- Granting of security over Association land and property

13.2 The Board nominates the Finance & Corporate Services Sub-Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

13.3 The Responsible Officer and his/her staff are required to always act in accordance with the Policy and prevailing Strategy. The following authority is delegated to the Responsible Officer,

- Approval of Procedures (insofar as these remain within any parameters set by Strategy)
- Approval and acceptance of interest rate contracts that are consistent with the Strategy.
- Approval of the accounting treatment of treasury management contracts.
- The raising of finance, approval, and acceptance of loan terms, only in so far as these are consistent with parameters set by approval of the Strategy and Business Plan, and subject to prior Board approval of such loan terms.
- Negotiation and agreement of detailed loan terms, following 'in principle' approval of loan Heads of Terms by the Board.
- The opening of new bank accounts (following approval by the Board) as required to manage the liquidity requirements of CHA.
- Placing, renewing, and recalling investment of surplus funds, only in so far as these accord with the parameters set in Treasury Management Procedures and are consistent with the recommendations made in the approved Annual Treasury Strategy.

## 14 Reporting Requirements

14.1 The Depute CEO – Finance, IT & Corporate Services will report to the Finance & Corporate Services Sub Committee as follows:

<u>Report</u>	<u>Details</u>
Quarterly Treasury Management Report / or in the Management Accounts	<p>Details of Lenders</p> <p>Loan Terms</p> <p>Loan Balances Outstanding</p> <p>Loan Period Outstanding</p> <p>Compliance Covenants</p> <p>Mix of Fixed &amp; Variable Debt Finance</p> <p>Confirmation of submission of reports to Lenders</p>
Quarterly Treasury Management Report: Lending	<p>The report should cover:</p> <ul style="list-style-type: none"> <li>• Details of current lenders</li> <li>• Loan terms</li> <li>• Loan balances outstanding</li> <li>• Loan period outstanding</li> <li>• Undrawn facilities and purpose of loan</li> <li>• Any changes in the intended use of loan funds</li> <li>• Security cover provided and basis of valuation</li> <li>• Covenant compliance</li> <li>• Mix of fixed and variable debt finance</li> <li>• Business case for mix of fixed/variable rate finance</li> <li>• Future proposed borrowing for the financial year ahead</li> <li>• Interest earnings from investment of surplus funds</li> <li>• Current market view on interest rates over short, medium and long term</li> </ul>
Quarterly Treasury Management Report: Investment	<p>Quarterly report giving details of current bank balances, interest rate earned, name of financial institution and credit rating.</p>

Annual Treasury Management Strategy	TMS incorporating five-year cashflow forecasts, with associated borrowing and interest rate strategy; projected liquidity and funding needs; covenant projections; business plan assumptions; and funding market options

## 15 Corporate Governance

- 15.1 CHA is constituted as a not-for-profit body. It is registered with the Financial Conduct Authority as a Co-operative and Community Benefit Society (No. SP1893R(S)) under the Cooperative and Community Benefit Societies Act 2014, the Scottish Housing Regulator as a Registered Social Landlord (No. HEP91) under the Housing (Scotland) Act 2010 and as a registered Scottish Charity with the charity number SC013996. It is governed by an independent Board elected by its membership.
- 15.2 The Board of CHA maintains a committee structure which includes Finance & Corporate Services and Housing & Property Services. The remit of each is set out in formal committee remit documentation. Finance & Corporate Services Sub-Committee provides detailed oversight of financial performance, planning and reporting. It has certain decision-making powers in these areas delegated by the Board.