Southside Housing Association Limited

Treasury Management Policy

July 2012

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1. TREASURY MANAGEMENT POLICY STATEMENT

Southside Housing Association Limited 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 consistent with those risks.

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 for the Association.

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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2. TREASURY MANAGEMENT RISK

The Association recognises that there are inherent risks associated with treasury management, the main ones being:

- **Interest Rate Risk**
  With its investments the Association must consider the rate being offered and the risk attaching to that rate. Generally the higher the return being offered the higher the risk. Whilst the Association will always strive to maximise the return it receives on its investments the overriding priority is to minimise risk.

  With borrowings the Association will always strive to minimise its borrowing costs, including the rate of interest paid. It needs to consider also the amount of debt that it will maintain on variable rates of interest and the amount that it will maintain on fixed rates of interest. It should always strive for a balance between the two which will depend upon current economic conditions and expectations.

- **Inflation Risk**

  This is the risk that the return on investments will not keep pace with inflation, for example if the Association were to lock money away for say 5 years at 2% and then both inflation and interest rates increase.

- **Liquidity Risk**

  This is the risk that the Association will have insufficient funds in the bank to meet its liabilities as and when they fall due. The Association may have adequate cash resources, but if these are tied up and cannot be accessed the Association could have a cash flow problem. Therefore the Association must ensure that its cash flow forecasting is up to date and accurate and that the placing of any term deposits take into account the Association's cash flow needs.

  Conversely, if the Association is borrowing to finance a project it must ensure that this is in place and available for drawdown in advance of the payments on the project becoming due.

- **Counterparty Risk**

  The risk here is that the Association will invest money in an organisation and that the organisation will then default on repaying the money. To try and prevent this, the Association will ensue that all counterparties with whom it deals have good credit ratings. It will do this by monitoring the various credit ratings of the recognised credit rating agencies.

- **Covenant Risk**

  The Association must monitor its financial position to ensure that it will meet all the financial covenants required from its lenders. Failure to do this could have expensive consequences as a failure to meet its covenants could mean margins being renegotiated and even worse loans being recalled.

  The Association should also be mindful of so called soft covenants such as requirements to submit accounts and budgets etc to lenders on time as these are still technical breaches of covenants.

  This policy recommends that the Association maintains a treasury management calendar to record and monitor all trigger dates.

- **Inter Company Risk**

  Risk arising from the inter-company relationships within the group needs to be considered and monitored, e.g. that the subsidiary company does not find itself unable to meet its liabilities to the parent company.

- **Political, Legal and Regulatory Risk**
  This relates to the risk that the Association will be unable to meet its obligations to counterparties due to political, legal or regulatory changes that may be imposed upon it.

3. REGULATORY STANDARDS OF GOVERNANCE AND FINANCIAL MANAGEMENT

3.1 The Association recognises that it must comply with the Scottish Housing Regulator's guidance, "*Regulation of Social Housing in Scotland – Our Framework".* In particular the Association must ensure that it meets the six standards expected under the heading, Regulatory Standards of Governance and Financial Management.

3.2 The Association's performance management framework lays out how compliance of the above shall be achieved.

3.3 In particular the Association must have effective treasury management controls and procedures and access to sufficient liquidity at all times.

3.4 CIPFA (Chartered Institute of Public Finance and Accountancy) has produced a "Code of Practice for Treasury Management in Housing Associations" and this policy statement takes account of the recommendations contained therein. The CIPFA Code has been issued after consultation with the SFHA and other appropriate bodies.

4. EQUAL OPPORTUNITIES

4.1 Southside Housing Association is committed to ensuring equal opportunities and fair treatment for all people in its work.

4.2 In implementing the Treasury Management Policy, we shall ensure that we achieve fairness towards all staff, governing body members and any partners with a financial connection to the association. Our commitment to equal opportunities and fairness will apply irrespective of factors such as gender or marital status, race, religion, colour, disability, age, sexual orientation, language or social origin, or other personal attributes.

5. RISK MANAGEMENT

5.1 The Association has considered the potential risks facing the Association should the Treasury Management Policy fail to be adhered to. Additional interest costs or other charges could arise from the failure to properly follow the policy. Should it be deemed that the Association is not complying with the conditions contained within this policy, then auditors, funders or SHR may comment adversely. This could have a serious financial impact on the Association and may adversely affect confidence in the Association by lenders, SHR and other partners.

5.2 In order to minimise this risk, the Association ensures the Treasury Management Policy is reviewed regularly and that all staff and agents are aware of their contribution to the efficient and effective running of the Association. Furthermore, methods of validation and ensuring probity include an annual external audits, regular internal audit and reports to Committee and The Scottish Housing Regulator.

6. PROCEDURES

6.1 A Treasury Policy Statement setting out the Association's strategy and procedures shall be adopted by the Association and is outlined in Section 6.

6.2 Responsibility for implementing and monitoring rests with the Management Committee.

6.3 The Director, in consultation with the Finance Agents, shall be responsible for making recommendations to members on borrowing, investment and financing decisions.

6.4 It is recognised that the Director 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.

6.5 The Director shall ensure that the Finance Agents report to the Management Committee on at least a bi-monthly basis on Treasury Management operations. This will be supplemented with a more detailed Annual Treasury Report.

7. TREASURY MANAGEMENT POLICY STATEMENT

7.1 Approved Activities

a) Raising capital finance for development project.

b) Raising capital finance for stock acquisitions.

c) Investment of surplus funds.

d) Arrangement of short-term overdraft facility.

7.2 Approved Methods of Raising Capital Finance

a) Borrowing may be on a standard capital and interest mortgage or, where appropriate, an interest only basis.

b) Borrowing may not exceed £200,000,000 in accordance with the Association's rules (Rule 19.1).

c) The Association shall avoid borrowing on a low start or deferred finance basis.

7.3 Approved Sources of Finance

a) Bank of Scotland
Clydesdale Bank
Royal Bank of Scotland
Nationwide/Dunfermline Building Society

Any other external source of funding must be investigated to determine its suitability and a written report, to include evidence of suitability, must be submitted to members for approval.

b) The period of borrowing must not normally exceed 30 years.

c) In selecting an appropriate lender the Association must give consideration to its current loan portfolio in order to ensure an appropriate mix of lenders.

d) Requests for funding shall normally be issued to three lenders.

7.4 **Approved Organisations for the Placing of Bank Term Deposits**

a) Allied Irish Bank
Bank of Scotland
Barclays Bank
Clydesdale Bank
Co-operative Bank
HSBC
Nationwide/Dunfermline Building Society
Royal Bank of Scotland
Santander

b) No more than £10m should normally be invested with any one institution. However, it is recognised that as maturing funds come back into the Association's main current account amounts in excess of £10m may be held with the Bank of Scotland. However, such periods should be kept to a minimum.

c) Investments are restricted to those offering maximum protection of the capital sum.

d) When placing funds on term deposit the Association must consider the following:

- The period of the deposit – this will be informed by the Association's projected cash-flow over the coming 12 months.
- The Rating of the Bank – this is particularly important given recent volatility in the banking sector.
- The interest rate offered, and
- The current spread of investments held with the approved banks

7.5 **Other Types of Investments**

a) Gilts
Should the Association deem it appropriate, it is permitted to place up to 25% of its surplus funds into Government Bonds (Gilts). It should only do this with the full consideration of the Management Committee and with the advice of an independent financial advisor who is authorised to advise on such investments.

b) **Other Forms of Investments**

The Association is only permitted to invest in other forms of investment if the initial capital investment is guaranteed. If this is not the case then the investment is not permitted under this policy. This would, for example, prevent the Association from investing in direct equities or a managed fund, where the value of the capital invested may go down as well as up. The purchase of stand alone derivatives as a speculative investment is not permitted.

7.6 Interest Rate Exposure - Borrowing

a) Consideration of fixed and variable interest borrowing must be demonstrated in any written report to the Management Commitee on funding proposals.

b) Prior to the use of financial derivatives the Management Committee is required to ensure that all relevant steps have been taken in accordance with the Regulatory Standards. In particular the Association will ensure full compliance with the SHR's publication of April 2012 "Treasury Management – Regulator Guidance".

c) The Association shall ensure that an appropriate mix of variable and fixed rate finance is in place. This will be reviewed regularly in line with the prevailing financial situation and taking account of the ability of the Association to manage interest rate risk.

d) Fixed rate arrangements should be put in place, where practical, in order to ensure the maturity of the fixed interest loans over periods ranging from 5 to 25 years. This provision is subject to no major variations in rates being achieved over the different interest periods.

8. REPORTING

8.1 **Reports upon Raising Private Finance**

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

- Borrowing project details
- Borrowing requirements
- Project timetable
- Sources of finance
- Basis of interest rates
- Loan margins
- Loan period
- Repayment options and costs
- Assessment of documentation (including margin review and early repayment clauses)
- Security (including release of security provision and basis of valuation)
- Arrangement fees
- Non utilisation fees
- Draw down arrangements
- Fixed/capped rates
- Review clauses
- Changes in existing loan terms
- Loan covenants
- Compliance with policy

8.2 The report must contain a recommendation from the Finance Agents in consultation with the Director and provide costings etc., from all lenders approached.

8.3 **Treasury Management Reports**

The Association's Finance Agents will produce both a bi-monthly treasury update and a detailed Annual Treasury Report.

The purpose of the bi-monthly report is to keep the Committee informed as to all recent treasury decisions and to keep them informed as to the Association's investments and borrowings.

The Annual Treasury Report will be issued as soon as practical after the financial year-end and will form a review of the year and will specifically comment on the following:

- Details of current lenders
- Loan terms
- Loan balances outstanding
- Loan period outstanding
- Undrawn facilities and purpose of
- Any changes in the intended use of loan funds
- Security cover provided and basis of valuation
- Covenant compliance
- Mix of fixed and variable debt finance
- Business case for mix of fixed/variable rate finance
- Future proposed borrowing for the financial year ahead
- Interest earnings from investment of surplus funds
- Current market view on interest rates over short, medium and long term

8.4 Cash Flow Projections

One year cash flow projections will be produced annually as part of the Annual Budget. Updated annual cash flows will also be produced through the year, as required by the Committee or the Director, where there has been a material deviation from the budget. The one year cash flow will be discussed and approved by the Committee when it is considered as part of the Annual Budget.

In addition the Association will produced a 5 Year Financial Forecast, including cash flow forecast for its own management purposes and as part of the financial regulatory submissions to the Scottish Housing Regulator.

Finally the Association will periodically update its 30 Year Cash Flow Forecasts, in line with its long-term business plan. In any event this will be done at least every two years.

The basis for Interest rate assumptions employed within long term financial forecasts should be clearly confirmed within the statement of assumptions accompanying the financial projections.

9. OPERATION OF POLICY

9.1 The Association’s Senior Finance officer, in conjunction with the Finance agents are responsible for the investment of the Association’s surplus funds.

9.2 All cleared balances in the rent and factoring accounts shall be transferred daily to the current account.

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

9.4 The Association’s Finance Agents are required to undertake a regular (minimum quarterly) check on the investment of surplus funds.

9.5 Responsibility for negotiating development project finance lies with the Association's Director who should liaise with the Association's external Finance Agents.

9.6 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.

9.7 The Association's Finance Agents are required to prepare loan portfolio returns in accordance with The Scottish Housing Regulator guidance.

9.8 All budget and management accounts reports must include relevant information in respect of liquidity and loan covenant compliance.

10. POLICY REVIEW

10.1 The Treasury Management Policy shall be reviewed every three years or sooner as deemed necessary by the Management Committee.