



**Policy Title: TREASURY MANAGEMENT POLICY**

**Policy Manual Section: Governance**

**Date Approved by**

**Management Committee: August 2018**

**Next Review Date: August 2021**

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## **1. STATEMENT OF PRINCIPLES**

- 1.1. The Association's Treasury Management Policy will be operated in line with the Scottish Housing Regulator's Treasury Management Regulatory Guidance published in August 2015.
- 1.2. The Guidance states that the "regulatory expectation is for RSL's to comply with Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross Sectorial Guidance Notes (2011 Edition), (the Code)." The Code was updated to the 2017 edition in December 2017 and will be applied in Treasury Management activities of the Association.
- 1.3. The Treasury Management Policy will be operated in line with the principles:
  - i. 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.
  - ii. The policies and practices should make clear that the effective management and control of risk are prime objectives of the treasury management activities and that responsibility for these lies clearly within the Association. The appetite for risk should form 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 portfolio liquidity when investing treasury management funds.
  - iii. 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 Associations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

## **2. SCOPE OF POLICY**

- 2.1. The Association will create and maintain, as the cornerstones for effective treasury management:
  - i. a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - ii. suitable treasury management practices (TMPs), setting out the manner in which the Association will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 2.2. The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where

necessary to reflect the particular circumstances of the Association. Such amendments will not result in the Association materially deviating from the Code's key principles.

- 2.3. The Management Committee will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual report on treasury management activities, a mid-year report, a covenant compliance report and plan in advance of the year (part of the annual budget and 30 year plan), in the form prescribed in its TMPs.
- 2.4. The Management Committee has responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Management Committee and delegates the execution and administration of treasury management decisions to the Finance & Corporate Services Manager, who will act in accordance with the Association's policy statement and TMPs.
- 2.5. The Management Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **3. POLICY STATEMENT**

- 3.1. The Association defines its treasury management activities as:
  - i. the management of the Association's investments and cash flows,
  - ii. its banking, borrowing, money market and capital market transactions;
  - iii. the effective control of the risks associated with those activities;
  - iv. the pursuit of optimum performance consistent with those risks.
- 3.2. 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 for the Association, and any financial instruments entered into to manage these risks.
- 3.3. The Association acknowledges that effective treasury management will provide support towards the achievement of its strategic aims, 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.
- 3.4. The investing of surplus funds can only be placed with organisation that are :
  - i. UK registered banks;
  - ii. UK registered Building Societies; or
  - iii. Financial Institutions registered for such activities within the UK

- 3.5. The maximum amount that can be invested with any one institution is £1.5m
- 3.6. The Association's borrowing may not exceed £200 million in accordance with the Associations rules.
- 3.7. The sources approved for the raising of finance are:
  - i. UK registered banks;
  - ii. UK registered Building Societies; or
  - iii. Financial Institutions registered for the issuing of loan or bond finance within the UK
- 3.8. Approved activities for the raising of finance include:
  - i. Raising capital for development, major repairs and other projects;
  - ii. Raising capital for stock acquisitions;
  - iii. Arrangement of working capital provisions through overdrafts and loan facilities.

## **4. TREASURY MANAGEMENT PRACTICE (TMP)**

### **TMP 1 RISK MANAGEMENT**

#### **General Statement**

- 4.1. The Association regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.
- 4.2. The Finance & Corporate Services Manager 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 the Association's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.
- 4.3. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in this document.

#### **Credit and counterparty risk management**

- 4.4. The Association will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques.

#### **Liquidity risk management**

- 4.5. The Association will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

**Interest rate risk management**

- 4.6. The Association will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.
- 4.7. 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. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.
- 4.8. It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

**Exchange rate risk management**

- 4.9. It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
- 4.10. The Association will only enter into financial transaction using sterling (GBP) as the currency to avoid any exchange rate risk.

**Inflation risk management**

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

**Refinancing risk management**

- 4.12. The Association will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Association as can reasonably be achieved in the light of market conditions prevailing at the time.
- 4.13. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

### **Legal and regulatory risk management**

- 4.14. The Association will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Association, particularly with regard to duty of care and fees charged.
- 4.15. The Association recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Association.

### **Fraud, error and corruption, and contingency management**

- 4.16. The Association will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

### **Price risk management**

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

## **TMP 2 PERFORMANCE MEASUREMENT**

- 4.18. The Association is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.
- 4.19. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Association's stated strategic aims business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be reported as part of the reporting measures set out in TMP6.

## **TMP 3 DECISION MAKING AND ANALYSIS**

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

4.21. Borrowing decision will include consideration of:

- i. The risks associated with the decision;
- ii. The appropriateness and legality of the transaction;
- iii. Financial impact on the Association
- iv. The current loan portfolio mix of lenders

4.22. Investment decisions will include consideration of:

- i. Risks and returns of the investment;
- ii. Future cashflow requirements
- iii. Periods of investment

#### **TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

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

- i. Standard Capital and interest mortgages;
- ii. Loan facilities with interest only periods;
- iii. Borrowing through bond facilities;
- iv. Cash deposit facilities for fixed terms up to 12 months
- v. Borrowing facilities will normally be no more than 30 years
- vi. The Association will normally seek funding quotes from at least 3 institutions. However, where it is deemed appropriate due to market conditions, or other business reasons the Association may negotiate with a single institution.

4.24. The Association will give due consideration to the mix of fixed and variable rate loan finance to meet its strategic and operation objectives. The parameters of which will be set out in its Treasury Management Report

#### **TMP 5 ASSOCIATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

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



- 4.26. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 4.27. If and when the Association intends, as a result of lack of resources or other circumstances, to depart from these principles, the Finance & Corporate Services Manager will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.
- 4.28. The Finance & Corporate Services Manager will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Finance & Corporate Services Manager will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.
- 4.29. The Finance & Corporate Services Manager will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 4.30. The delegations to the Finance & Corporate Services Manager in respect of treasury management are set out in the schedule of delegated authority Appendix 1. The Finance & Corporate Services Manager will fulfil all such responsibilities in accordance with the Association's policy statement and TMPs.

## **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

- 4.31. The Association will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
- 4.32. As a minimum the Management Committee will receive:
- i. an annual report on the treasury management activities during the year, compliance with loan covenants and risk management.
  - ii. Mid-year report;
  - iii. a covenant compliance report;
  - iv. Quarterly management accounts will include cash position and financial covenant compliance details.

- 4.33. The Management Committee are responsible for treasury management and will receive regular monitoring reports on treasury management activities and risks.
- 4.34. The Management Committee will have responsibility for the scrutiny of treasury management policies and practices.
- 4.35. The Association will report the treasury management indicators as detailed in the Scottish Housing Regulators requirements.

### **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

- 4.36. The Finance & Corporate Services Manager will prepare for consideration, and the Management Committee will approve and, if necessary, from time to time will amend, an annual budget and 30 Year Financial Plan including treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The Finance & Corporate Services Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.
- 4.37. The Association will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

### **TMP 8 CASH AND CASH FLOW MANAGEMENT**

- 4.38. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Association will be under the control of the Finance & Corporate Services Manager, in line with the delegated authority set out in Appendix 1, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Finance & Corporate Services Manager will ensure that these are adequate for the purposes of monitoring compliance with TMP1 liquidity risk management.

### **TMP 9 MONEY LAUNDERING**

- 4.39. The Association is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the

officer to whom reports should be made, are detailed in the schedule to this document.

## **TMP 10 TRAINING AND QUALIFICATIONS**

- 4.40. The Association recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Finance & Corporate Services Manager will recommend and implement the necessary arrangements.
- 4.41. The Finance & Corporate Services Manager will ensure that Management Committee members tasked with treasury management responsibilities have access to training relevant to their needs and those responsibilities.
- 4.42. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

## **TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**

- 4.43. The Association recognises that responsibility for treasury management decisions remains with the Association at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed with the Associations Procurement Policy. The monitoring of such arrangements rests with the Finance & Corporate Services Manager.

## **TMP 12 CORPORATE GOVERNANCE**

- 4.44. The Association is committed to the pursuit of proper corporate governance throughout its businesses 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.
- 4.45. The Association has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in this document, is considered vital to the achievement of proper corporate governance in treasury

management, and the Finance & Corporate Services Manager will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## **5. MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS**

- 5.1. The Association recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.
- 5.2. The Association will ensure that all the Association's investments are covered in the Internal Management Plan, capital strategy, investment strategy or equivalent, and will set out, where relevant, the Association's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
- 5.3. The Association will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Association's risk exposure.

## APPENDIX 1: Delegated Authority for Treasury Management Policy

Delegated Power	Exercised by
Approval and amendment of Treasury Management Policy	Management Committee
Amendments to lists of counterparties	Management Committee
Approval of Annual Treasury Management Strategy (Per Annual Budget ) and Reports	Management Committee
Approval of new borrowing	Management Committee
Application of additional surplus funds for investment purposes	Finance & Corporate Services Manager / Director
Application of approved strategy	Director/ Finance & Corporate Services Manager
Treasury dealing with counterparties	Finance & Corporate Services Manager
Investing surplus cash and agreeing term of notice on deposits	Finance & Corporate Services Manager / Director
Opening new bank accounts or building society accounts	Finance & Corporate Services Manager / Director
Borrowing and lending documentation	Finance & Corporate Services Manager / Director under authority of Committee of Management
Reporting on treasury activity to Committee	Finance & Corporate Services Manager