Community Counts
Milnbank
Housing Association

53 Ballindalloch Drive, Glasgow G31 3DQ

TREASURY MANAGEMENT POLICY

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The Treasury Management Policy is based upon the recommendations of the Code of Practice on Treasury in the Public Services issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) (2021 Edition). The Policy also reflects updated Guidance issued by SFHA in 2022.

NOTE

The Code identifies three key principles-

Principle 1 - 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.

Principle 2 - 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.

Principle 3 - 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.

Milnbank Housing Association (MHA)'s Financial Regulations include the CIPFA Code recommended four clauses in relation to treasury management:-

NOTE 2

1 MHA will create and maintain, as the cornerstones for effective treasury and investment management: a treasury management policy statement stating the policies,

2. The governing body will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs.

3. MHA delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the audit and risk committee and for the execution and administration of treasury management decisions to the Finance and IT Manager , who will act in accordance with the organisation's policy statement,

4. MHA nominates the audit and risk committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies across the organisation

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

Overall control of MHA's treasury management rests with the Management Committee. The Officers of MHA must not operate outside of the guidelines set out in this policy and are accountable at all times to the Committee for their actions and decisions.

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

2. TREASURY MANAGEMENT POLICY STATEMENT

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

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

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

3. REGULATORY STANDARDS of GOVERNANCE & FINANCIAL MANAGEMENT

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

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.

NOTE 3

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

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

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

Standard 4 - The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose.

Standard 6 - The governing body and senior officers have the skills and knowledge they need to be effective

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

4. RISK MANAGEMENT

In considering risk management MHA 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 the 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 the policy.

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.

MHA 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 MHA is not complying with the conditions contained within this document, the SHR may comment adversely on such matters. This could have an adverse effect on confidence in the Association by lenders, other partners and members. Therefore, in order to minimise the risk, MHA 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 SHR.

The main areas of borrowing risk are:-

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

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

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

●MHA will have an appropriate hedging strategy will assist in minimising any adverse effects caused by increases in interest rates.

b. <u>Liquidity Risk</u>
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.

●MHA will use monthly cash flow projections, together with appropriate monitoring, to 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. Accordingly, MHA will employ suitable systems and procedures and will maintain effective contingency management arrangements.

●MHA will have regular reviews and documentation of financial practices and internal audits to 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. It is now usual for companies to set up a calendar with all loan requirements and trigger dates for compliance such as insurance schedules, 5-year stock condition survey, annual valuation and quarterly returns.

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

The main areas of investment risk are:-

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

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

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

●MHA includes accurate detailed cash-flow projections within the annual budget document, quarterly cash flow updates with the Management Accounts, appropriate budget monitoring and the regular updating of the long-term projections should assist in limiting this risk.

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.

●MHA 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.

NOTE

Risk Matrix

The CIPFA code highlighted 9 different risks and these were detailed in the SFHA paper as :-

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	CIPFA Code Risk	Detailed Risk
1	Credit & Counterparty	Lending Bank failure to honour drawdown
		Deposit bank failure
2	Liquidity	Required funds (per BP) not available when required
3	Interest Rate	Higher than budgeted interest costs create risk of breach of relevant covenants
4	Exchange Rate	Increased costs or liabilities as a result of exchange rate movements
5	Inflation	Cash flows from investments will not be worth as much in the future
6	Refinancing	Maturing borrowings cannot be repaid with cash resources and must be refinanced at additional cost and/or more stringent covenants
7	Legal & Regulatory	Organisation fails to operate within its legal powers or Regulatory requirements so that lenders or Regulators are forced to act
8	Operational, inc Fraud, Error and Corruption	Internal controls fail to prevent fraud or corruption (inc money laundering) resulting in financial and reputational damage
9	Price	Movement in market value of non-cash investments fails to match or exceed inflation

The SFHA guidance suggests that a risk map should be created containing the nine risks identified by the CIPFA code and is scored on the probability of the risk happening (from remote to almost certain) and the impact of the event occurring (from negligible to major). This Risk Map will be included within the quarterly Finance Report presented to A&R Sub-Committee.

5. TREASURY MANAGEMENT APPROACH

Responsibilities

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

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

c. The Finance & IT Manager shall be responsible for making recommendations to the Committee on borrowing, investment and financing decisions.

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

e. It is recognised that MHA 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 and Finance & IT Manager will consult with all available Office Bearers and a written report must be presented at the next available Committee meeting.

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

<u>Approved Activities</u>

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

<u>Approved Methods of Raising Capital Finance</u>

a. Borrowing for term loans will normally be on a standard capital and interest basis.
b. Appropriate use may be made of capital repayment holidays.
c. Borrowing for development or bridging funding may be by overdraft.
d. Borrowing may not exceed £100 million in accordance with the Association’s rules (Rule 18.1).

<u>Approved Sources of Finance</u>

NOTE

a. The following organisations are approved currently as sources of funding:
- Allia
- Bank of Scotland
- Barclays
- CAF Bank
- Charity Bank
- Co-operative Bank
- GB Social Housing
- The Housing Finance Co-operation
- Life and Pensions Fund (Capital Markets)
- Nationwide Building Society
- Royal Bank of Scotland
- Santander UK
- Triodos

- Unity Bank
- Virgin Money

The above list may be amended, with approval from the Management Committee, if other lenders enter into the market offering loan finance to RSL on attractive terms. In addition, to traditional loan finance from the above institutions, the Association shall consider participating in aggregated bond finance alongside other Scottish and UK RSLs.

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

Interest Rate Exposure

a. Following a re-financing exercise in November 2018, MHA has chosen to fix all debt. This will run to 2036 and 2038 respectively, with Nationwide Building Society and GB Social Housing. Any new funding to be considered in the future will be assessed on a variable basis to allow for a balance of fixed and variable rates to be used. MHA has not set any parameters for fixed or variable lending but exposure to rate structures has been and will be carefully considered to take account of prevailing economic conditions and the Association's overall loan portfolio at that time

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

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

Approved Organisations for Investment

a. The following organisations are approved currently for investment purposes:
    - Bank of Scotland
    - Barclays
    - Handelsbanken
    - HSBC
    - Lloyds Bank
    - Nationwide Building Society
    - Santander UK
    - UK Government Gilts
    - Royal Bank of Scotland

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

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

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

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

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

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

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

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

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

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

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

Reporting

a. A report will be put to the Management Committee at least once a year on treasury management operations and will provide information on the following: -

- Details of current lenders
- Loan balances outstanding per lender
- Loan terms
- Expected settlement date
- Mix of fixed rate and variable rate finance
- Security cover provided, details of 'excess' security per lender and basis of valuation.
- Valuation update requirements in the year ahead
- Covenant compliance.
- Unencumbered stock and indicative valuation.
- Future proposed borrowing or refinancing for the financial year ahead
- Interest earnings from investment of surplus funds
- Forecasted cash flows and confirmation of no liquidity or covenant compliance. A minimum cash balance of £2.0 million should be achieved in each year of the 30 year cashflow.
- Market view of future interest rates over the next 12-36 months.
- A review of the approved sources of finance with reasons behind recommendation.
- A review of the approved organisations for investment with reasons behind recommendation.
- Any value for money considerations and benefits attaching to the treasury management function.
- Compliance with policy.

NOTE

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

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

The report will contain a recommendation from the Finance & IT Manager (and, where appropriate, a suitably qualified Financial Investment Adviser) and provide costs and terms from all lenders approached.

c. MHA may periodically consider the early repayment of loan debt. Any such requests will be in a written form and any such prepayments require approval of the Management Committee.

d. Cash flow projections are considered a sound framework for effective cash management and shall be discussed at the Committee meeting as appropriate to allow the monitoring of income, deposits and other treasury management issues. A minimum cash balance of £2.0 million should be achieved in each year of the 30 year cashflow.

NOTE

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

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

g. The Finance & IT Manager shall prepare Loan Portfolio Returns in accordance with SHR guidance.

NOTE

Golden Rules

a. Golden Rules is the term used to describe the key financial ratios that MHA will seek to maintain to ensure that its treasury management activity is effective, by providing adequate liquidity, appropriate management of risks and proper compliance with loan covenants.

b. Golden Rules should be set for each loan covenant, and performance measured at least quarterly. Their purpose is to alert management and Committee to potential issues, under performance or non-compliance before it becomes critical. Management should be expected to alert the Committee and be able to explain why a Golden Rule is at risk of breach, and to describe how MHA will respond.

6. OPERATION OF TREASURY MANAGEMENT PROCEDURES

Investments

a. The Finance Officer will carry out the task of investing surplus funds under the direction of the Finance & IT Manager.

b. Bank balances must be checked daily by the Finance Officer. In the event of holidays or other unavoidable reasons for the Finance Officer’s absence, the Finance Assistant will check the daily balances.

c. MHA, subject to working capital requirements, shall endeavour to maximise the use of bid deposits and consideration shall be given periodically to rates on offer from approved investment institutions.

d. The Finance & IT Manager will undertake a regular check on the investment of surplus funds in liaison with the Finance Officer.

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

f. Given current sums available for investment there is a £5.0m maximum sum that can be invested with any one institution. This amount refers to deposits placed only and excludes any day to day working capital which must be held at a minimum of £2.0m.

g. MHA will not deposit funds denominated in a foreign currency

Loan Finance

a. Responsibility for negotiating development project finance lies with the Finance & IT Manager who should liaise with the Director at all stages in the process.

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

c. In selecting an appropriate lender MHA 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 MHA can opt to go with one lender.

d. MHA 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.

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

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

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

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

i. MHA will not borrow funds denominated in a foreign currency.

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

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

<u>Other Matters</u>

a. MHA's banking facilities are currently held with the Bank of Scotland. Service levels and charges shall be reviewed on a regular basis by the Finance Officer.

b. The Finance & IT 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.

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

d. MHA is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff receive proper awareness training in this regard.

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

f. MHA 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. MHA has adopted and implemented the key principles of the CIPFA Code of Practice and relevant Guidance issued by SFHA. This, together with the other arrangements detailed in this policy, is considered vital to the achievement of proper corporate governance in treasury management.

7. MONITORING & REVIEW OF POLICY

MHA's Treasury Management policy and its system for ensuring effective compliance will be monitored by the Audit Sub-Committee on a quarterly basis and will be reviewed every two years.

8. DATA PROTECTION

MHA controls the personal information that we collect, this means that we are legally responsible for how we collect, hold and use personal information. It also means that we are required to comply with the General Data Protection Regulations (GDPR) when collecting, holding and using personal information.