Treasury Management Policy

The Officers of the Association will not be permitted to act outside the guidelines contained in this Policy and are accountable, at all times, to the Board for their actions and decisions.

General Strategy and Background

The past and continuing uncertainty in global financial markets emphasises the importance of treasury management to North Glasgow Housing Association's (NGHA) business. The Association recognises the importance of cash management and the administration and compliance with the terms set out in its loans with current lenders.

The Board is aware that the treasury function exists to ensure that its financial assets are safeguarded, and financial risks are identified and managed in accordance with the objectives of NGHA which include minimising the risk to tenants and protecting assets that have been funded by private and public funds.

The underlying principle that shapes the Treasury Management Policy is that the Board is risk averse.

It is the responsibility of the DCEO to ensure that the Board and Audit-Committee is provided with a written assurance on a quarterly basis that the Policy is being adhered to and that the covenants and information requirements set out in the loan documents are being complied with.

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1. Introduction

The Treasury Management Policy takes into account the key recommendations of "Treasury Management in the Public Service – code of practice (the Code) published by the Chartered Institute of Public and Financial Accountants (CIPFA). It also considers the Association's rules, the Community and Benefit Societies Act 2014, and current Scottish Housing Regulator guidance.

The Association acknowledges the three Key Principles as set out in Section 4 of the Code: specifically:

Key Principle 1: Public Service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2: Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that the responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including the use of any 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.

Key Principle 3: They 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, their treasury management policies and practices should reflect this.

The Association will maintain a statement outlining our treasury management policies and objectives.

2. Treasury Management Policy Statement.

Treasury Management activities include the:

- management of the association's cash flows.
- association's banking, deposit and borrowing transactions.
- effective control of risks associated with the above activities.
- Pursuit of optimum performance consistent with such 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 objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employ suitable performance measurement techniques, within the context of effective risk management.

The Association follows the CIPFA recommendation, set out in Section 5 of the Code that all public sector organisations (including Registered Social Landlords) adopt the following clauses relating to treasury management as part of their formal policy documents:

The Association will create and maintain as the cornerstones for effective treasury management:

- A treasury management policy statement (this document), stating the policies, objectives, and approach to risk management of its treasury management activities; and

- Suitable Treasury Management Practices (TMPs"), prescribing how the Association will seek to achieve those policies and objectives and how it will manage and control its treasury management activities.

3. Overall Responsibilities and Duties

Overall responsibility for ensuring effective treasury management sits with the DCEO.

Area of Work	Responsibility	Prepared by	Includes
Treasury Management Policy	Board and Audit Committee	DCEO	Sets strategy and approach to risk and reporting
Annual Treasury Report	Audit Committee	DCEO	Considers market conditions and recommends changes in deposits and mix of variable and fixed loans if required
Detailed Treasury Management implementation	DCEO	Deputy Director of Finance	Operation of approved policy and mix of short- and long-term deposits

4. Treasury Management Practices and Risk Management

4.1. General Statement.

The identification, management and control of treasury management risk will be the responsibility of the DCEO. The Audit Committee will receive an annual report on the adequacy and suitability of current procedures pertaining to the above, following review, the Audit Committee will recommend approval of the annual report to the Board. In addition, should any circumstance arise, that could result in the crystallisation of any significant risk, the Audit Committee will meet as a matter of urgency, and a report on the relevant matter duly submitted. A report on the findings and actions taken because of the risk will be submitted to the Board at its next available meeting or earlier if required.

4.2. Liquidity Management.

The Association will always ensure that it has the level of cash resources available to it necessary for the achievement of business objectives. At all times, the Association will maintain four months' cash cover for anticipated business needs.

4.3. Interest and inflation rates.

The Association will manage its exposure to fluctuations in interest and inflation rates to minimise any detrimental impact on budgeted income and expenditure levels. This will be achieved by the prudent use of approved borrowing and investment instruments. The prime purpose is to maintain stability and certainty of costs and revenues, but at the same time retaining a degree of flexibility to take advantage of unforeseen and favourable changes in the level of interest and inflation rates.

4.4. Investment Instruments.

The security of the investment of principal sums is a prime objective of treasury management. Counterparty lists and limits will reflect a prudent attitude towards organisations with which funds may be deposited. Investment activities will be limited to those organisations referred to in schedule two attached to this document.

4.5. Borrowing Instruments.

When obtaining borrowing and other funding sources, including refinancing, the Association will seek terms and conditions that are competitive and favourable, subject to prevailing market conditions.

4.6. Legal and Regulatory.

All treasury management activities will comply with statutory constraints and regulatory requirements. Potential impact of future legislative and regulatory changes will be examined with a view to minimising risk.

4.7. Fraud, error, corruption, and contingency management.

The Association will ensure that it identifies the circumstances which may expose it to the risk of loss through fraud, error, corruption in its treasury management dealings. The Association will employ suitable systems and procedures and will maintain contingency management arrangements to these ends.

4.8. Market fluctuations.

Stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of principal sums invested. The Association will seek to protect itself from the effects of such fluctuations. In furtherance of this policy, a maximum 40% of the loan portfolio should be unhedged in normal circumstances. Fixing individual loans scheduled to be fully repaid in the near to mid-term of the Associations business plan would fall outside of this limit.

5. Value for Money and performance measurement.

The Association is committed to value for money in its treasury management activities. There will be periodic analysis of the value it adds in support of the Association's aims and objectives. The performance of treasury management will be measured using the criteria set out in schedule three of this document.

6. Decision making and analysis

The Association will maintain full records of its treasury management decisions. The issues to be addressed and the processes and practices to be applied in reaching decisions are detailed in schedule four to this document.

7. Approved instruments, methods, and techniques

The Association will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in schedule five of this document.

8. Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

In the interests of effective control, prevention of fraud, and the pursuit of optimum performance, the activity of treasury management will be separated into five tasks:

- Overview of Policy and operational practice – Board/ Audit Committee
- Setting of policies – DCEO
- Implementation and control – DCEO
- Recording and administering of transactions – Finance Manager/Finance officer
- Audit and review – External Audit/Internal Audit

It is recognised that due to lack of resources that it may not be possible to have separate members of staff undertaking these tasks. In such a situation, the DCEO must ensure that the reasons are recorded, and the implications considered and evaluated and reported to the Audit Committee. Procedures in segregation of duties are detailed in schedule 6.

9. Reporting Requirements and Management Information Arrangements

9.1. The Audit Committee will receive a quarterly report outlining

- Cash management
- Loan finances
- Interest paid and received
- An assessment of the market
- Recommended changes to balancing the loan portfolio
- Review of deposit institutions and recommendations for additions to or removal from the panel at Schedule 2.

9.2. The Audit Committee will receive.

- An annual report on the treasury management strategy and plan to be pursued in the coming year. The annual strategy will report:
- The current position
- An assessment of the market
- A recommendation on the balance of the association's portfolio.
- An annual report on the performance of the treasury management function in the past year. This will include the effects of decisions taken and transactions executed, and on any non-compliance with policy.
- A quarterly report summarising the association's performance over the period in comparison to the annual strategy. The report will also highlight any recommendations to vary the annual strategy in the light of market conditions etc.

10. Budgeting, Accounting and Audit Arrangements

An annual budget will be set which will include assumptions in respect of interest and inflation rates, the rate of rent increase and the rate of salary increase. The cost of operating the treasury management function will be incorporated into the finance function.

11. Cash flow Management.

All monies in the hands of the Association will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared with an initial projection over twelve months but taking into account the thirty-year projections that is prepared annually.

12. Money Laundering

The Association is alert to the possibility that it may become the subject of an attempt to use it in a transaction involved in the laundering of money. Procedures will be maintained for verifying and recording the identity of counterparties and reporting suspicions.

13. Staff Training

The Association will ensure that all staff involved in the treasury management function are equipped with the necessary knowledge and skills to operate effectively and manage risk. The Association will provide training to staff to ensure that such knowledge and skills are maintained and updated.

Members of the Audit Committee and Board will be provided with training necessary to ensure effective management of risk associated with this policy.

14. Use of External Service Providers

In order to minimise risk and obtain best market advice, the Association can obtain the services of external advisors in relation to treasury management techniques and products. This will be done in conjunction with existing and new funders.

15. Corporate Governance

In the interests of corporate governance, the treasury management function will be undertaken with openness, transparency, honesty, integrity and accountability. The Association has adopted the key recommendations of the CIPFA code. These, together with other arrangements outlined in the schedule to this document are necessary to the achievement of proper corporate governance in treasury management.

Treasury Management

Schedule 1 - Approved Organisations for Borrowing

Organisation	Borrowing Limit £m
Nationwide	40
THFC	30
GB Social Housing	30
Virgin Money	25
Barclays	25
Lloyds/HBOS	25
HSBC	25
Royal Bank of Scotland	25
Santander	25
Triodos	10
CAF	10

The Association's overall borrowing limit as set out in rule 18.1 is £200m.

The above list may be amended, with approval from the Board, should other lenders enter into the market offering loan finance to Registered Social Landlords on attractive terms.

Methodology

In the case of all proposed borrowing, the DCEO will prepare a report for the Board seeking its agreement and a recommendation containing the following information:

- The name(s) of the proposed lender(s) with a brief description of experience and understanding of the social housing market.
- Where applicable, the proposed lender(s) credit ratings.
- Details of the interest bases permitted under the proposed facility.
- The level of lender's margin.
- Details of arrangement and non-utilization fees, legal costs, valuation fees etc.
- Details of financial covenant requirements and any other restrictive undertakings required together with an assessment of the Association's ability to comply therewith.
- Details of asset cover required.
- Information requirements.
- Details of security arrangements.
- Comparison with alternative lenders and a cost benefit analysis.
- Arrangements for draw downs.
- Details of independent financial, legal, and other advice.
- Any other matters that will assist the Board in arriving at its decision.

Careful consideration will be given to covenant and information requirements of new lending to ensure ongoing compliance with existing covenants. Board and Audit Committee will continue to be informed about the importance of covenant compliance and the implications of a breach.

The credit worthiness of approved counterparties will be monitored by the DCEO. Any impairment to the credit worthiness of the approved counterparties will be advised to the Audit Committee and Board.

Schedule 2 - Approved Organisations for Investment

Organisation	Investment Limit £m
Virgin Money	30
Lloyds/HBOS	20
Barclays	20
Nationwide	10
Royal Bank of Scotland	20
Santander	5
THFC	5
Pollok Credit Union	1
UK Government Securities (UK Gilts)	N/a

Schedule 3 Performance Criteria

The Treasury Management function will be subject to independent review by Internal Audit. The following criteria will be used in assessing and measuring performance.

- Compliance CIPFA guidance in treasury management
- Compliance with Scottish Government guidance on treasury management and related issues.
- Compliance with the Association’s policies and procedures on treasury management
- Compliance with loan covenants

Schedule 4 Decision Making and Analysis

a) Long Term Borrowing

Long-term borrowing for the construction or refurbishment of properties will be on the basis of a scheme, or a number of schemes identified in the Association’s development programme as submitted by the DCEO and approved by the Board. The project will be subject to financial appraisal using Scottish Government “standard assumptions” or another basis as approved by the Chief Executive and DCEO (these assumptions will be approved by the Board).

Long term borrowing for other fixed assets (e.g. offices) will on the basis of an internal risk assessment being undertaken and an independent valuation.

When a property is sold outright, or a shared ownership property is tranched up, any loan attached to that property will be repaid.

Any other proposals for partial of full repayment of long-term loans – out with the normal loan repayment schedules agreed with the lender- will be subject to approval by the Audit Committee on the submission of a report to the Committee by the DCEO. The Report will include a risk assessment and will also outline the financial benefits to the association on the repayment of the loan.

b) Development Period and Bridging Borrowing

Development Period and bridging borrowing will be on the basis of scheme cash flows, as approved by the Chief Executive and DCEO.

These cash-flows will show scheme expenditure and grant income per month.

c) Other Borrowings

Decision with regard to other short term and overdraft borrowing will be supported by the production of a cash-flow forecast on a monthly basis. The forecast will indicate the duration of such borrowings. A report will be submitted by the DCEO to the Audit Committee, justifying the need for such borrowings and reported to the Board for approval.

d) Investments for Periods of over One year

Decisions with regard to investments for periods of over one year will be made by the Audit Committee, upon submission of a report by the DCEO. The report will contain a risk assessment of the proposed investment, will outline the financial benefits, and will contain a cash-flow projection for the expected duration of the investment.

e) Investments for Periods between One week and One Year

Decisions with regard to investments for periods between one month and one year will be made by the DCEO, upon submission of a report to the Audit Committee. The report will outline the reasons for the recommendation and why it is the best current option taking into account current cash flows.

Schedule 5 Approved Instruments Methods and Techniques

Methodology for identifying approved institutions

The Association identifies approved institutions based on their credit rating with the aim of using institutions that have that are 'A' rated or better. The Association will review this on an annual basis through a recognised rating house. If an institution we are currently using has an A- rating or lower following this review, action will be considered on a case by case basis dependent on the term of the borrowing. Ratings are those provided by Standard & Poor, Moodys and Fitch.

Borrowings

The Association does not currently have any funding agreements in place. If development activities during the period ahead are projected to be at a level where it would significantly impact on the Association's cash flow, then a facility or other means of funding would be put in place with the Boards approval.

The Association may also raise loans on a "deferred interest" or "index linked" basis. Any proposal for raising such loans must be subject to a risk assessment submitted by the DCEO to the Audit Committee subject to approval of the Board.

The Association may purchase "cap", "collar", or "swap" derivative instruments subject to the provisions in Scottish Government Guidance. Any proposal for purchase such instruments must be subject to a risk assessment submitted by the DCEO to the Audit Committee subject to the approval of the Board.

No other derivative instruments may be purchased by the Association.

Investment

Investment of Association will be by way of deposit of receipts with a regulated bank or building society as shown in Schedule two. The Association will take into account credit ratings as supplied by the Ratings Agencies but will take into account other circumstances particularly where this involves the Associations main current account banker (Virgin Money).

If a situation was reached where Virgin Money was deemed no longer acceptable for long term investments then Virgin Money would continue to be used for short-term liquidity requirements (overnight and weekend investments) and business continuity arrangements until other arrangements could be put in place.

Schedule 6 Segregation of Duties

Task	Undertaken by	Approved by
Approval of policy, investment and borrowing decisions and performance outcomes	Board	
Overseeing policy implementation performance management and reporting to Board	Chief Executive/ DCEO	Audit Committee
Setting of Policies	DCEO	Audit Committee
Implementation and Control	Deputy Director Finance	DCEO
Recording and Administration	Finance Officer/Assistant	Financial Manager
Audit and Review	Internal Auditor	Audit Committee

Schedule 7 Financial Planning Assumptions

Assumption	Source Basis
Interest Rates	Bank of England Forecast/ External Advice
Inflation Rates	CPI Forecast
Salary Increases	Employers in Voluntary Housing
Rent Increases	Affordability Criteria