FORTH HOUSING ASSOCIATION LIMITED

TREASURY MANAGEMENT POLICY

Code:	FIN03
Approved:	May 2025
Next review:	By May 2028
Cross reference:	FIN01 Financial Regulations FIN02 Financial Procedures

HAPPY TO TRANSLATE

This document can be made available in alternative languages or formats (such as large print, audio etc). Please contact staff as required.

Policy Summary

The purpose of the Treasury Management policy is to enable efficient management of financial risk to the Association by outlining borrowing and investment procedures.

Equalities

No equalities issues have been identified in the Equalities Impact Assessment Screening Questions there is no requirement to do a full Equality Impact Assessment.

Privacy

This policy does not have a direct impact on privacy. Data Protection legislation applies to all records which will be processed and managed accordingly. There is no requirement to do a full Privacy Impact Assessment.

Policy Owner

Name: Finance Officer Date of Next Review: May 2028

1.0 Introduction

1.1 This 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) and in line with the expectations of the Scottish Housing Regulator as set out in the Regulatory Standards.

1.2 The CIPFA Code identifies three key principles-

- 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.

- 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.

- 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.

1.3 The Association's Financial Regulations include the CIPFA Code recommended clauses in relation to treasury management.

1.4 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.

1.5 Overall control of the Association's treasury management rests with the Management Committee. The Officers of the Association 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.

1.6 It is essential that Committee Members are aware of and understand the decisions being made by the Association and their financial implications. The Management Committee is responsible for reviewing and monitoring the financial requirements of the Association in compliance with SHR Regulatory Standards, FHA's Financial Regulations and CIPFA's Code of Practice on Treasury

Management. The Director shall ensure that Committee and Staff Members will be briefed and receive appropriate training as requested or required.

2.0 Treasury Management Policy Statement

2.1 Treasury Management is the management of all the Association's borrowings, investments and cashflows, including its banking, money market and capital market transactions and the control of the associated risks.

2.2 The Association 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 the Association should be aggregated for Treasury Management purposes.

2.3 It is essential that Committee Members are aware of and understand the decisions being made by the Association and their financial implications. The Management Committee is responsible for reviewing and monitoring the financial requirements of the Association in compliance with SHR Regulatory Standards, Forth HA's Financial Regulations and CIPFA's Treasury Management Guide. Committee Members will be briefed and receive appropriate training as requested or required.

3.0 Regulatory Standards of Governance and Financial Management

3.1 The SHR Regulatory Standards which govern Treasury Management activities have been taken into account in this procedure:

- 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.

- RS3.2: 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.

- RS3.5: The RSL monitors, reports on and complies with any covenants it has agreed with funders. The governing body assesses the risks of these not being complied with and takes appropriate action to mitigate and manage them.

3.2 Scottish Housing Regulator guidance (2017) contains the regulatory expectation that an RSL will comply with CIPFA Code.

4. Risk Management

4.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Guide for Housing Associations (January 2021) recognises that the management of the treasury function creates “additional risk” for an organisation. It states that “the Committee need to ensure that the risks are properly identified and evaluated; appropriate management strategies and financial risk management techniques are deployed to manage those risks; and that the Committee can gain assurance that through continued monitoring such controls remain effective.”

4.2 The CIPFA Code of Practice details some of the key risks faced by a housing association’s treasury operations and those considered relevant to Forth HA’s operations are set out in this section.

4.3 The Association 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 breaches) could arise from the failure to follow these procedures properly. Should it be deemed that the Association is not complying with the conditions contained within this document, the Regulator may comment adversely on such matters. This could have an adverse effect on confidence in the Association by lenders, other partners and members.

4.4 In order to minimise the risk, the Association ensures the Treasury Management procedures are reviewed regularly and that all Staff and Agents 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 Scottish Housing Regulator.

4.5 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.

b. <u>Inflation Risk</u>
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.

c. <u>Liquidity Risk</u>

This is a risk where the Association has insufficient cash to meet its liabilities as they fall due.

d. Funding and Refinancing Risk
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.

e. Counterparty or Credit Risk
This is the risk that a loss will be incurred by the Association if a counterparty / debtor defaults on an obligation. In simple terms this can be due to a risk in deposited funds not being repaid or in operational terms rent arrears not being collected which have a material effect on the overall finances of the Association.

f. Failure of Internal Control Systems
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.

g. Soft covenants
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, stock condition surveys, timely valuations and quarterly returns.

4.6 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.

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, there will be no access by the Association which requires these funds to settle.

The inclusion of 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

5.0 Treasury Management Approach

5.1 Responsibilities

a. Overall responsibility for implementing and monitoring the approach to treasury management rests with the Management Committee.

b. The Director and Finance Officer, in consultation with the Finance Agents, shall be responsible for making recommendations to Management Committee on borrowing, investment and financing decisions.

c. It is recognised that the Association may have to execute a decision quickly, in relation to fixed interest or deposit 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. A minimum of two Office Bearers are required to approve any decisions.

d. Management Committee will be assured that the day to day risk controls for Treasury Management are carried out by staff and will oversee the overall risk approach by the Association through monitoring and reporting to ensure it remains up to date and relevant.

5.2 Approved Activities

a. Raising capital finance for development remodelling projects.
b. Raising capital finance for stock acquisitions.
c. Investment of surplus funds.
d. Arrangement of short-term overdraft facility.
e. Banking facilities.

5.3 Approved Methods of Raising Capital Finance

a. Borrowing for term loans must be on a standard capital and interest basis only unless the Management Committee approves an alternative method following a full written report outlining the nature of the borrowing arrangements and risks associated with it.
b. Appropriate use may be made of capital repayment holidays or interest free loans at any time during the term of the loan.
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).

5.4 Approved Sources of Finance

a. The following organisations are approved currently as sources of funding:

- Lloyds Banking Group (including - Bank of Scotland)
- Nationwide Building Society
- Natwest Group
- Santander
- The Scottish Building Society
- CAF Bank

b. Any other source of funding must be investigated to determine its suitability and a full written report must be submitted to the Management Committee for approval. Any new lender will then be added to the above list.

5.5 Interest Rate Exposure

a. The Association shall ensure that an appropriate mix of fixed and variable rate finance is in place. Currently it is considered that fixed rate finance of 40% to 50% represents a suitable mix for the Association. Any fixed rate arrangements shall also consider the maturity of fixed interest loans over periods ranging from 5 to 25 years subject to no major variations in rates being achieved over the different interest periods.

b. The Annual Treasury Management Report (see section 5.7) should contain information on current interest rate trends for the short, medium and longer term.

5.6 Approved Organisations for Investment

a. The following organisations are approved currently for investment purposes:

- Lloyds Banking Group (including Bank of Scotland)
- Nationwide Building Society
- Natwest Group (including Royal Bank of Scotland)
- HSBC
- Santander

b. Before any investment is made with a new organisation, the Association must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the Director and Finance Officer in conjunction with the Finance Agent 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.

c. 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 – 'F-1' – 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 Officer. Any impairment to the credit worthiness of the approved counterparties will be advised to the Management Committee.

d. Sensible judgement should prevail in deciding whether to immediately remove the Association's funds from fixed-term or notice deposit account (if it is possible to do so prematurely) of an approved deposit-taker, should its credit rating 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.

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

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

g. Before any investment is made with a new organisation, the Association must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the Director and Finance Officer in conjunction with the Finance Agent, 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.

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

5.7 <u>Reporting</u>

a. A report will be put to the Management Committee at least once a year on treasury management operations.

b. The annual report on Treasury Management operations must 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.
- Unencumbered stock.
- Future proposed borrowing for the financial year ahead
- Interest earnings from investment of surplus funds
- Covenant compliance.

c. Cash flow projections shall be discussed at the Management Committee as appropriate to allow the monitoring of income, deposits and other treasury management issues.

d. All recommendations to members on borrowing decisions must 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)
- Security (including release of security provision)
- Arrangement fees
- Non utilisation fees
- Draw down arrangements
- Hedging requirements from lender
- Implication of fixed rate arrangements (including breakage costs)
- Changes in existing loan terms
- Fixed/capped rates
- Capital repayment details
- Compliance with policy

e. The report must contain a recommendation from the Finance Agent (and, where appropriate, a suitably qualified Financial Investment Adviser) in consultation with the Director and Finance Officer and provide costings etc. from all lenders approached.

6. Operation of Treasury Management Procedures

6.1 The Director, Finance Agent and Finance Officer will carry out the task of investing surplus funds.

6.2 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 Assistant Finance Officer will check the daily balances. The Finance Officer will undertake transfers of funds between accounts as required.

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

6.4 The Finance Agents will undertake a regular check on the investment of surplus funds in liaison with the Finance Officer.

6.5 Given current sums available for investment, the maximum sum which can be invested with any one institution shall be £1million. This amount excludes any day to day working capital which must be held at a minimum of £500k.

6.6 Responsibility for negotiating development project finance lies with the Director, Finance Officer and Finance Agent who should liaise with the Management Committee at all stages in the process.

6.7 The period of borrowing must not normally exceed 25 years. The Association must consider in its written report the effect of borrowing for a period other than that assumed in the Scottish Government housing grant appraisal system.

6.8 In selecting an appropriate lender the Association 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 the Association can opt to go with one lender, if justified.

6.9 Requests for funding shall normally be issued to a minimum of three lenders.

6.10 The Association should normally give due consideration to obtaining legal advice before agreeing loan documentation.

6.11 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.

6.12 The Association 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.

6.13 The Association reserves the right, if it is considered appropriate, to fund from its own reserves the balance of any scheme costs after deduction of grants, or to make a partial contribution to the overall project.

6.14 The Association will at no time grant any lender a Floating Charge over its properties.

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

6.16 The Finance Officer is required to prepare Loan Returns in accordance with Scottish Housing Regulator guidance.

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

7. Monitoring of the Policy

7.1 The Management Committee will review this policy at least every 3 years and staff are responsible for ensuring that it meets legal and good practice requirements.

7.2 The Management Committee will monitor and the application of this policy through the Bi-annual Treasury Management Reports presented to the Management Committee meeting by the Finance Officer.

8.0 Complaints and Appeals

8.1 Forth Housing Association welcomes complaints and positive feedback, both of which provide information which helps us to improve our services. We use a complaints procedure developed by the Scottish Public Services Ombudsman (SPSO) and the Scottish Housing Regulator.

The complaints procedure allows for most complaints to be resolved by front line staff within a five day limit (first stage), or if the complaint is complex, a detailed investigation will be made by a manager within a 20 day limit (second stage). At the end of the second stage our response will be made by a director. If the customer remains dissatisfied, he/ she may then refer the matter to the SPSO.

At each stage we will advise the customer how the complaint should be taken forward and advise which agency would be most appropriate to consider the case.

9.0 Equalities

9.1 Equality and diversity underpin all our activities and services. When delivering our services, we never discriminate on the basis of sex or marital status, race, disability, age, sexual orientation, language, social origin, or of other personal attributes, including beliefs or opinions such as religious beliefs or political opinions. Full details of our Equalities Policy can be found on our website www.forthha.org.uk or can be obtained from our office.

10.0 Data Protection - Privacy

10.1 We recognise the importance of data protection legislation, including the General Data Protection Regulation, in protecting the rights of individuals in relation to personal information that we may handle, use and disclose about them, whether on computer or in paper format. We will ensure that our practices in the handling, use and disclosure of personal information as part of the processes and procedures outlined in this policy comply fully with data protection legislation. More information is available from our Data Protection Officer.

11.0 Availability

11.1 This policy is available on our website and can be made available in a number of other languages and other formats on request.

12.0 Review

12.1 This policy will be reviewed at least every 3 years by the Management Committee and staff are responsible for ensuring that it meets legal, regulatory and good practice requirements.

Appendix 1 – Golden Rules

Liquidity
Cash does not fall below £500,000
Total cash balance must not fall below £500k. This should be considered when producing long term financial projections.

Investments
No more than £1million invested in one institution
This is for investments only and does not include any day to day working capital

Fixed vs Variable Borrowing
Fixed rate debt of around 40-50%

Interest Cover Covenant
Headroom of at least 135%.

Gearing Covenant
Lower than 90%

Asset Cover Covenant
Minimum of 135%

Appendix 2 Equality Impact Assessment Screening Questions

Forth Housing Association Ltd
Equality Impact Assessment Screening Questions

Treasury Management

Will the implementation of this policy have an impact on any of the following protected characteristics?

1. Age	Yes ☐	No☒
2. Disability	Yes ☐	No☒
3. Gender reassignment	Yes ☐	No☒
4. Marriage and Civil Partnership	Yes ☐	No☒
5. Pregnancy and Maternity	Yes ☐	No☒
6. Race	Yes ☐	No☒
7. Religion or belief	Yes ☐	No☒
8. Sex	Yes ☐	No☒
9. Sexual orientation	Yes ☐	No☒

If you have answered 'Yes' to any of these points, please complete a full Equality Impact Assessment. If you have answered 'No', you need take no further action in completing an Equality Impact Assessment

Forth Housing Association - Privacy Impact Assessment Treasury Management Policy

1. A substantial change to an existing policy, process or system that involves personal information Yes ☐ No ☒

2. A new collection of personal information
Yes ☐ No ☒

3.. A new way of collecting personal information (for example collecting it online)
Yes ☐ No ☒

4. A change in the way personal information is stored or secured
Yes ☐ No ☒

5. A change to how sensitive information is managed
Yes ☐ No ☒

6. Transferring personal information outside the EEA or using a third-party contractor
Yes ☐ No ☒

7. A decision to keep personal information for longer than you have previously
Yes ☐ No ☒

8. A new use or disclosure of personal information you already hold
Yes ☐ No ☒

9. A change of policy that results in people having less access to information you hold about them
Yes ☐ No ☒

10. Surveillance, tracking or monitoring of movements, behaviour or communications
Yes ☐ No ☒

11. Changes to your premises involving private spaces where clients or customers may disclose their personal information (reception areas, for example)
Yes ☐ No ☒

If you have answered 'Yes' to any of these points, please complete a full Privacy Impact Assessment. If you have answered 'No', you need take no further action in completing a Privacy Impact Assessment.