Calvay Housing Association Limited

TREASURY MANAGEMENT POLICY

Date Approved: **19 September 2019**

Review Date: **September 2022**

INTRODUCTION

Policies and Objectives of Calvay Housing Association's Treasury Management Function

In approving this Treasury Management Policy Statement, the Board of Management of Calvay Housing Association ("CHA" or "the Association") makes explicit reference to:

1) CIPFA – Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017) ("the Code");

2) The Scottish Housing Regulator ("the SHR") – Regulation of Social Housing in Scotland – Our Framework, issued in April 2012 and subsequently revised with effect from 31 August 2015; and

3) The SHR - Treasury Management – Recommended Practice, effective from 31 August 2015.

In Clause 3.2 of item 3) the SHR states that it is its "regulatory expectation" that Registered Social Landlords will comply with the CIPFA Code.

For the purposes of this document the "organisation" includes both CHA and any subsidiaries. It is the responsibility of the Director and Finance Manager to ensure that the policies and procedures outlined herein are applied within the subsidiaries.

CHA 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 responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their 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.

Key Principle 3

They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, which 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.

CHA hereby accepts CIPFA's recommendation that all public service organisations should adopt as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances, the four clauses set out in Section 5 of the Code:

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

- A Treasury Management Policy Statement ("TMPS"), stating the policies and objectives of its treasury management activities in keeping with the size and complexity of the organisation
- Suitable Treasury Management Practices ("TMPs") in keeping with the size and complexity of the organisation, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

The content of the policy statement and treasury management practices 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 this organisation. Such amendments will not result in the organisation materially deviating from the Code's key recommendations.

2. The Management Committee will receive reports on its treasury 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. The Management Committee is responsible for the implementation and regular monitoring of its treasury management policies and practices, and delegates the execution and administration of treasury management decisions to the Director and Finance Manager who will act in accordance with the organisation's policy statement and TMPs.

4. The Management Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The following are also relevant background to this document:

- The Rules of CHA including the financial regulations;
- The Industrial and Provident Societies Acts 1965 to 1978;
- The Cooperative and Community Benefit Societies Act 2014; and
- CHA's risk management strategy, which includes Treasury activities.

TREASURY MANAGEMENT POLICY STATEMENT

1. CHA defines its treasury management activities as:

   The management of the Association's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. CHA 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 CHA, and any financial instruments entered into to manage these risks.

3. CHA acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

A. Definition of Approved Activities

Approved activities of the Association will be:

1. The placement of surplus cash in suitable deposits which complies with the Treasury Management Policy.

2. Borrowing of capital from selected lenders which complies with the Treasury Management Policy.

B. Formulation of Treasury Management Strategy

1. Investment Strategy

Based on the assumption that financial return is directly correlated with financial risk, the Associations intention is to optimise rather than maximise the return on the cash held over a period of time. In this regard CHA will effectively only consider deposits with banking institutions with a Standard and Poors (or Moody's) credit rating of P1 or P2. It has also been agreed that the Association holds in similar amounts any long term money (greater than 31days) on a 3, 6 and 12 month term deposit account.
The 3 and 6 month term deposits will enable the Association to take advantage of any upward trend in interest rates in the shorter term.

The 12 month deposit will conversely enable the Association to take some degree of cover if interest rates begin to decrease. This portfolio of deposits will spread the Association's exposure to risk from very high and low interest rates and thereby optimise the return
.
As and when these deposits mature the principal and interest which has accrued should be rolled over and reinvested in a similar term deposit.

Surplus short term cash (less than 31 days) is managed by the Association's bank, The Royal Bank of Scotland plc on a daily basis. The bank checks the current account cleared balance and transfers surplus short term money into an interest bearing investment account.

2. Borrowing Strategy

Conventional loans are the agreed option for the Association and raised only to satisfy projects approved by the Scottish Government.

The Association has an approved list of lending institutions which meet its requirements and are as listed below:

- Bank of Scotland
- The Royal Bank of Scotland
- Clydesdale Bank
- Nationwide Building Society

As and when a project requires Private Finance any one of the above institutions can be approached and agreed with the Board. Cognisance will be given to the Scottish Housing Regulator's (see SHR 24) desire to see a "balanced portfolio" and that the Association will therefore, seek to diversify the relevant types of loans and lenders used. If deemed necessary, the Association will take a hedged position on its loan portfolio in light of prevailing economic conditions, in particular present and future interest rates, and seek to ameliorate the worst effects of upward and punitive rates. Financial derivatives e.g. Fixed rate, Capped and Collared loans etc. can be utilised to reduce the risks associated with fluctuating interest rates.

However in replacing the uncertainty, associated with conventional variable loans, with the greater certainty derived from those other types of loans mentioned, the Association will pay an interest rate premium on the loan. The trade off between this additional cost of money and the downside risk arising from a traditional variable loan portfolio can be quantified when under consideration.

C. Definition of Approved Organisations for Investment

Security of the Association's funds is a very high priority. It is proposed therefore that all investments are placed with only the above named banks / building societies and that money is not transferred out of the organisation into the hands of either financial intermediaries or higher risk organisations offering higher returns.

The Association's deposits may change at some point but does not negate the above policy in that investment funds (deposits) are ideally held by the Association's current bankers. In this way the Association will avoid any risk associated with intermediary cash managers.

D. Policy on Delegation

a. All money in the hands of the Association shall be aggregated for the purpose of Treasury Management and reported annually to the Finance Sub-Committee via the cash flow attached to the Annual Budget.

b. The Finance and Audit Sub-Committee (or other Sub Committee performing the function of a Finance and Audit Sub-Committee) will decide the respective term deposits in line with the policy and in view of the cash flow projections for the coming 12 months.

c. On a quarterly basis the Finance Sub-Committee will be informed of cash resources via the quarterly Management Accounts (Treasury Management note) and updated if necessary.

d. If necessary and within a very complex cash structure, the Finance Sub-Committee will receive annually a report which will record activities and return on investment (deposits). This Annual Treasury Management report should be presented within 6 months of the annual year end and make comparisons with other rates of interest being quoted by other banks. In this way the Association will ensure that a good rate of return is being achieved.

e. Borrowing requirements will be presented primarily to the Development department with the Finance Sub-Committee noting the broad characteristics of the loan in terms of affordability, Communities Scotland approval and lender.

f. Occasionally there will be the need for non-routine capital requirements which should go to the first convenient Finance Sub-Committee for ratification by the Management Committee or directly to the latter.

g. Reports and the day to day management of the treasury function will be carried out by the Finance Manager in close liaison and in conjunction with the Association's Director.