

TREASURY MANAGEMENT POLICY AND PRACTICE STATEMENTS

Introduction:

The Welsh Government (WG) requires Welsh associations to have “a treasury management strategy covering borrowing and investment which minimises risk” (Regulatory Code 2006). While the Regulatory Code has been replaced with a new Regulatory Framework the Welsh Government still expects associations to follow a risk minimisation approach to treasury management.

It is the Board of Management’s responsibility to ensure the Association employs appropriately qualified and experienced staff, to formulate and implement treasury management policy and procedures and appropriate controls.

Interest on borrowings is a significant cost to the Association so rises in interest rates represent a high risk. Because of this the Association will take a low risk and prudent view when making its own interest forecast.

Monitoring the cost and levels of borrowing is fundamental to the future financial viability of the Association. Covenants are in place with loan providers that state the Gearing Limits (borrowings compared to Association reserves) and Interest Cover (interest cost compared to surpluses generated) must not exceed agreed limits. If those limits are breached then the Association’s cost of borrowing will rise as the lenders will perceive the Association to be a more risky investment and so will demand a higher return.

Uncertainty in the UK and World economy will also have to be considered. Due to all the above it is therefore important to be clear about the definition of treasury management and ensure the policy and strategy is comprehensive. It has been the intention to include all elements of the CIPFA Code although some of those elements may not yet affect the Association. One element that should be highlighted is the requirement to adequately train both members of staff and those charged with Governance with responsibility for Treasury matters.

Policy Statement:

1. Mid-Wales Housing Association defines its treasury management activities as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions and loan management; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. Mid-Wales Housing 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 organisation.

3. Mid-Wales Housing Association 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.

Key Principles

In the CIPFA ‘Treasury Management in the Public Service Code of Practice’, four key principles are recognised, which should be central to the treasury management policy. These are:

- Compliance – with statute, regulation and best practice.
- Security – of financial assets.
- Liquidity – ensuring adequate resources to meet obligations.
- Effectiveness and efficiency – in the use of financial resources and achieving value for money.

These principles are to ensure the approach of risk minimisation is pursued by the Association.

Purpose:	To ensure the Association’s effective control of the risks associated with the treasury management function.
Reference No:	
Date of Issue:	March 2013
Review Date:	March 2016

1.1 The attached document concerning Treasury covers the following areas:

- i. Treasury Policy and Treasury Practices Statement. As required by the CIPFA Code these are combined into the same document.
- ii. Annual Treasury Management and Investment Strategy Statement.

Recommendation:

That Members approve the “Treasury Management Policy and Practice Statements” together with “the Annual Treasury Management and Investment Strategy”.

Charles Brotherton
 Director of Corporate Services
cbrotherton@mid-walesha.co.uk
 Tel: 01686 620502
 20th March 2013



TAI CANOLBARTH CYMRU MID-WALES HOUSING

Yn barod **amdani** **Equal** to the challenge

Treasury Management Policy and Practice Statements

Strategic Aim:	To promote the Association's core value of EXCELLENCE. <i>"We believe in positively changing the attitude towards social housing and promise to provide affordable homes to a high standard and through making the best use of our resources."</i>
Reference No:	Treasury Management Policy and Practice Statements March 2013
Date of Issue:	Board of Management:
Review Date	March 2013
Next Review Date:	March 2016
Departments Affected:	All Departments
Approved By/Date:	Board March 2013
Lead Officer:	Charles Brotherton, Director of Corporate Services
Statutory Compliance:	<ul style="list-style-type: none"> - Welsh Government guidance - CIPFA's <i>Treasury Management in the Public Services: Code of Practice (Fully Revised Second Edition 2011</i> - Welsh Government Accounting requirements for Social Landlords General Determination (Wales) 2009

Title: TREASURY MANAGEMENT POLICY AND PRACTICE STATEMENTS

STATEMENT

1. The Welsh Government (WG) requires Welsh Associations to have “a treasury management strategy covering borrowing and investment which minimises risk” (Regulatory Code 2006). While the Regulatory Code has been replaced with a new Regulatory Framework the Welsh Government still expects associations to follow a risk minimisation approach to treasury management.
2. It is the Board’s responsibility to ensure the Association employs appropriately qualified and experienced staff, to formulate and implement treasury management policy and procedures and appropriate controls. It is therefore important to be clear about the definition of treasury management and ensure the policy and strategy is comprehensive.
3. This Association adopts the key principles of CIPFA’s *Treasury Management in the Public Services: Code of Practice (Fully Revised Second Edition 2011)*, as described in Section 4 of that Code (CIPFA Code).
4. Accordingly, the Association will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
 - 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.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the CIPFA 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 CIPFA Code’s key principles.

5. Board will receive the annual strategy report as recommended in the CIPFA Code and will also receive reports on its treasury management policies, practices and activities, including, as a minimum, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
6. The Association delegates responsibility for execution and administration of treasury management decisions to the Director of Corporate Services, who will act in accordance with the Association’s policy statement and TMPs.
7. The Association nominates the Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies and to provide independent assurance that there are adequate controls in place and to regularly monitor treasury management performance.

THE TREASURY MANAGEMENT POLICY

8. Mid-Wales Housing Association defines its treasury management activities as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions and loan management; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

9. Mid-Wales Housing 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 organisation.

10. Mid-Wales Housing Association 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.

Key Performance Areas:

- A. The Director of Corporate Services will oversee the treasury management function within the Association and will report annually on the Association’s planned treasury management activities and after the close of the year in the format agreed within the Treasury Management Practices adopted by the Association.
- B. The Director of Corporate Services will, in conjunction with Executive Group and Operational Management Team, ensure compliance with all statute, regulations and avoid triggering ‘events of default’ as outlined in the loan documents.
- C. The Director of Corporate Services will report Quarterly to the Scrutiny Committee on Treasury activities.
- D. The Finance Manager will report monthly within the metrics reporting system on the efficiency of treasury management practices within the Association.
- E. The Finance Manager is to report on the Association’s overall cash flow situation on a monthly basis through the Management Accounts.
- F. The Operational Management Team will receive metrics reporting on a monthly basis on the efficiency of the treasury management practices within the Association.
- G. The Operational Management Team will monitor the risks associated with treasury management within its risk map.

Treasury Practices Statement 6 in this report sets out the Reporting Parameters.

Purpose:	To ensure the Association's effective control of the risks associated with the treasury management function.	
Reference No:		
Date of Issue:	March 2013	
Review Date:	May 2008, January 2011, January 2012, March 2013	
Departments/ Sections Affected:	All	
Approved By:	Board of Management March 27 th 2013	
Lead Officer:	Director of Corporate Services	
Statutory Compliance	<ul style="list-style-type: none"> • Regulatory Code 2.4.2. • CIPFA's Code of Practice for Treasury Management in the Public Services. 	
Strategic Risk Factors	<p>Interest rate risk – the risk of interest rates rising greater than expected within the business plan cashflows.</p> <p>Liquidity risk – lack of funds to enable the ongoing development of new housing opportunities.</p> <p>Events of default – the triggering of an event which means the loan facility is repayable, thereby resulting in the Association not having the cash resources to continue trading.</p>	
Equality Impact Assessment	<i>How does/will this policy ensure needs are met fairly, particularly with regard to race, gender, disability etc?</i>	N/A
	<i>Is it felt that this policy might affect different groups adversely. If so, what is the justification for this and is it legally permissible?</i>	No groups or individuals are expected to be adversely affected
	<i>Have any representative groups in the locality been asked for their opinion and if so, what was the outcome?</i>	No
Tenant Engagement	<i>How does/will this policy ensure the needs of tenants are met?</i>	The object of this policy is to ensure risk is minimised to ensure the loan facilities remain in place and the costs of borrowing remain in line with business plan assumptions.
	<i>How is it felt this policy will impact on the rights and obligations of tenants?</i>	It is not envisaged that this policy affect tenants' rights and obligations
	<i>Have tenants been consulted and were the outcomes of that consultation taken into account when considering the introduction of this policy?</i>	At this time, tenants have not been consulted on this policy

TREASURY MANAGEMENT PRACTICES STATEMENTS:

The CIPFA “Treasury Management in the Public Services – Code of Practice” outlines twelve treasury management practices (TMPs). These outline the approach the Association should take in delivering its treasury management policy.

TMP1 RISK MANAGEMENT

Risk is defined by the code as

“The risk of failure by a counterparty to meet its contractual obligations to the Association under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty’s diminished creditworthiness, and the resulting detrimental effect on the Association’s capital or current (revenue) resources”.

The Director of Corporate Services 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 and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedules to this document.

(i) credit and counterparty risk management

This 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 its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques* listed in the schedule to this document

(ii) liquidity risk management

The Association will ensure it has adequate though not excessive cash resources, borrowing arrangements and 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.

The Association will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

(iii) interest rate risk management

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*.

It will achieve this by the prudent use of its approved financing and investment 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.

(iv) exchange rate risk management

The Association will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. However, given the Association's activities it is unlikely that it will be exposed to any exchange rate risk.

(v) refinancing risk management

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 are 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.

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.

(vi) political, legal and regulatory risk management

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 credit and counterparty policy under *TMP1(i) credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, Association and compliance in respect of the transactions they may effect with the Association, particularly with regard to duty of care and fees charged.

(vii) fraud, error and corruption, and contingency management

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.

(viii) market risk management

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.

(ix) soft covenants

A loan agreement can be broken, not just by a breach of financial covenants, but also by failing to meet deadlines, clauses or failing to provide documentary evidence. Therefore, the Director of Corporate Services will ensure a spreadsheet is maintained that details all loan requirements and trigger dates for compliances for such items as insurance certificates, stock condition surveys, valuations and quarterly returns

(x) inflation risk management

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on treasury management activities, will be controlled by the Association as an integral part of its strategy for managing its overall exposure to inflation.

(xi) groups and intercompany loans

Providing the legal framework allows, risks can be shared across more than one entity in the group. However, this also means it is important to monitor the activities of the group members, as a breach in their activities will mean a breach for the group as a whole.

TMP2 PERFORMANCE MEASUREMENT

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.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Association's stated 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 measured using the criteria set out in the schedule to this document.

TMP3 DECISION-MAKING AND ANALYSIS

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. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Association will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management*.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

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.

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.

If and when the Association intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Corporate Services 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.

The Director of Corporate Services will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and arrangements for absence cover. The Director of Corporate Services will also ensure that, at all times, those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Director of Corporate Services will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Director of Corporate Services in respect of treasury management are set out in TMP5. The Director of Corporate Services will fulfil all such responsibilities in accordance with the Association's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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.

Board will receive an annual report on the strategy and plan to be pursued in the coming year.

As a minimum, Board will receive:

- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Association's treasury management policy statement and TMPs.

Operational Management Team will receive quarterly monitoring reports on treasury management activities and risks.

Scrutiny Committee will have responsibility for the scrutiny of treasury management policies and practices and will provide independent assurance that there are adequate controls in place to regularly monitor treasury management performance.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Director of Corporate Services will prepare, and the Board will approve and, if necessary, from time-to-time will amend, an annual budget for 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 form which the Association's budget will take is set out in the schedule to this document.

The Director of Corporate Services 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*.

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.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Association will be under the control of the Finance Manager, 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 Manager will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (ii) *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

The Association is alert to the possibility that it could 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 area are properly trained.

The approach to Anti-Money Laundering is outlined in more detail in the Money Laundering Policy

TMP10 TRAINING AND QUALIFICATIONS

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 Manager will recommend and implement the necessary arrangements.

The Director of Corporate Services will ensure that Board Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those members charged with governance should recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Association recognises that responsibility for treasury management decisions remains with the Association at all times. However, 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 will 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 subject to regular review. It will ensure that, where

feasible and necessary, 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. The decision to appoint External Providers rests with the Board of Management.

The monitoring of such arrangements rests with the Director of Corporate Services and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

The Association 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 activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Association has adopted and has implemented the key principles of the CIPFA Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management and the Finance Manager will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES SCHEDULES:

	Page
TMP1 – Risk Management	14
TMP2 – Performance Measurement	23
TMP3 – Decision-making and Analysis	25
TMP4 – Approved instruments, methods and techniques	26
TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements	28
TMP6 – Reporting requirements and management information arrangements	32
TMP7 – Budgeting, accounting and audit arrangements	35
TMP8 – Cash and cash flow management	36
TMP9 – Money laundering	38
TMP10 – Training and qualifications	39
TMP11 – Use of external service providers	40
TMP12 – Corporate governance	42

TMP 1 Risk management

1.1 Credit and counterparty risk:

The risk of failure by a counterparty to meet its contractual obligations to the Association under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Association's capital or current (revenue) resources.

1.1.1 Policy on the use of credit risk analysis techniques

- i. The Association will use credit criteria in order to select creditworthy counterparties for placing investments with.
- ii. Credit ratings will be used as supplied from all three rating agencies
 - o Fitch,
 - o Moody's,
 - o Standard & Poors.
- iii. The Association's Treasury Staff will obtain all ratings relevant to the Association.
- iv. The Association will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including:
 - the quality financial press
 - market data
 - information on government support for banks and the credit ratings of that government support.

1.1.2 Criteria for Counterparties

It is worth mentioning Moody's is currently very much more aggressive in giving low ratings than the other two agencies. This may mean it would be unworkable and leave few banks on its suggested lending list if just Moody's ratings were used. A scoring system may therefore be needed to incorporate all three ratings agencies.

1.1.3 "High" credit quality

The Association has adopted the following in respect of defining a "high" credit quality:

Long Term Ratings (longer than 12 months):

Permitted Fitch Ratings	Permitted Moody's Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings (less than 12 months):

Permitted Fitch Rating	Permitted Moodys Rating	Permitted S&P Rating
F1+	N/A	A-1+
F1	P-1	A-1

*Note: **Nationalised banks** in the UK have credit ratings which do not conform to the credit criteria usually used to identify banks which are of high creditworthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch has assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.*

Any institution that drops below any of the above ratings will not be considered for investments. The most risk free approach to dealing with surplus funds is to repay borrowing, a cost benefit analysis comparing the financial benefits of investing against the costs saved by repaying borrowing will be done for each sum available. Given the fact that repayment of borrowing will be the preferred option in terms of risk and that cash flow planning will keep surpluses to a minimum it is believed the above criteria are sufficient and other methods of measuring the risk of a company, such as credit data swaps will not be required.

A list of Institutions that have a high enough credit rating to invest with will not be maintained as it will be too time consuming to create and keep up to date in relation to its use given the approach detailed below. Instead counterparties will be checked individually before investing and so ensure the latest rating is used.

Building Societies are not rated by the rating agencies but the Association will use those Building Societies from whom we borrow funds. By applying this criteria the Association is complying with the CIPFA suggested guidance in respect of using the lowest common denominator.

In summary and considering the risks inherent in the market together with the poor returns available the 2013/14 Investment Process would be to:

- **assess the cashflow requirements;**
- **any surplus funds will be applied to reduce borrowings following a cost benefit analysis against investment returns available;**
- **following that process any remaining surplus funds should be placed first in deposit accounts with our loan providers, subject to the limits in 7.11**

- alternative investment accounts to those of our loan providers will only be considered only if they meet the Associations High Quality Credit Rating detailed above. The reasoning for following this course of action will be reported to scrutiny in the quarterly activity report.

1.1.3 Country limits

The Association will not invest in countries outside the UK.

1.1.5 Group/Institutions - Counterparty Criteria/Limits

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	2m	Up to 2 years	As Per Rating List
Building Societies	2m	Up to 2 Years	Only invest in those that we have borrowings with.
Money Market Funds	2m	N/A	All are AAA rated
Local Authorities	2m	Up to 2 years	N/A
Group Subsidiary	£10m	Up to 30 years	Maintaining Welsh Government Registration and Clean HARA
Other Housing Associations	£5m	Up to 30 years	Maintaining Welsh Government Registration and Clean HARA

1.2 Liquidity risk:

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Association's business/service objectives will therefore be compromised.

1.2.1 On a daily basis the Association aims to minimise the balance held in the Association's main bank accounts. By so doing, the optimum amount of cash held for cashflow purposes is invested so affecting the best possible return on the Association's cash.

1.2.2 Cash is invested on the basis of maximising the return by means of the most favourable interest rates, subject to ensuring the security of the investment, whilst also allowing instant access to a level of cash for use if necessary.

However, as cashflow is monitored for at least 12 months ahead, the necessity for large amounts of instant cash is rare. The minimum cash level available on instant access is set at £500,000.

- 1.2.3 The Association has a £500,000 overdraft agreement with its bankers for emergency situations.
- 1.2.4 The need for short-term borrowing does not normally arise but the Association has a £2m revolving loan facility to cover such situations.
- 1.2.5 There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

1.3 Interest rate risk:

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Association's finances, against which the Association has failed to protect itself adequately.

- 1.3.1 Interest rate risk exposure arises when changes in interest rates affect the Association's liabilities. The largest interest rate risk is having insufficient funds to service its debts. Fixing the interest rate removes the interest rate risk, but this creates an inflation risk. Therefore, the Association needs to have a balance between fixed and floating interest debt. The balance chosen will depend upon the Association's appetite for risk. However, with income largely controlled the approach should be to have certainty of costs and therefore fix the greater proportion of debt. While there is no 'right' answer, the CIPFA Housing Association Panel guide suggests the maximum level for variable debt should be 30% to 40%.
- 1.3.2 The Association will aim for a loan portfolio consisting of loans which have a 70:30 mix of fixed and floating rate debt to ensure that the Association is not overly exposed to movement in interest rates. This 'target' split will be subject to +/-10% tolerance. In addition no more than 10% of borrowings will be held on indexed linked loans.
- 1.3.3 In managing the interest rate risk, the following are allowed:
 - Forward fix arrangements.
 - Interest rate caps (maximum interest rate).
 - Interest rate floor (minimum interest rate).
 - Interest rate collar (maximum and minimum interest rates).
 - Cancellable option (the right at specified period to terminate the fixed interest rate).

1.4 Exchange rate risk:

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Association's finances, against which the Association has failed to protect itself adequately.

1.4.1 It is the Association's policy to deal only in sterling. However, from time to time, the Association may have an exposure to exchange rate risk arising from the receipt of income or the incurring of expenditure in a currency other than sterling. The Association's strategy is to remove all foreign exchange exposures as soon as they are identified.

1.5 Refinancing risk:

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the association for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.5.1 The Association has a 30 year plan for forecasting its income and expenditure which incorporates projected capital investment requirements (development schemes for the next five years and component replacements in properties for 30 years) and the revenue consequence. This plan is an internal document for treasury purposes and also provides comfort for funders that the Association can fulfil its loan obligations. The plan is also submitted to the Welsh Government (WG). These revenue consequences are reflected in the revenue budgets.

1.5.2 The Association's policy is it will always ensure it has sufficient facilities available to fund the committed development programme for the following 12 months.

1.5.3 Debt maturity profiling is continually monitored by the Treasury Management staff. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous. The reasons for any rescheduling to take place include:

- the generation of cash savings at minimum risk
- to reduce the average interest rate
- to amend the maturity profile and/or the balance of volatility of the debt portfolio.

All rescheduling will be reported to Board as soon as is practicable.

1.6 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.

1.6.1 The treasury management activities of the Association comply fully with legal statute, guidance, Codes of Practice and the regulations of the Association.

1.6.2 Procedures for evidencing the Association's powers/authorities to counterparties

Investments are made only to institutions which match the Associations credit rating criteria from the credit ratings supplied by Fitch, Moody's and Standard & Poors and the Building Societies from whom the Association has outstanding borrowings.

Borrowings are made from major institutions regulated by the Financial Services Association.

1.6.3 Statement on the Association's Political Risks and Management of the same

The Director of Corporate Services will take appropriate action with the Chief Executive and the Chairman of Board to respond to and manage appropriately political risks such as a change of Government, etc.

1.6.4 Director of Corporate Services

The duty of this officer is to ensure that the financial affairs of the Association are conducted in a prudent manner and to make a report to the Association if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, error and corruption, and contingency management risk:

The risk that the Association fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

1.7.1 The Association will:

- seek to ensure that there is an adequate division of responsibilities and an adequate level of internal check to minimise such risks.
- fully document all its treasury management activities so that proper procedures are made known.
- ensure that staff taking up treasury management activities have proper training in procedures and are subsequently subject to an adequate and appropriate level of supervision.
- ensure that records are maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.2 Details of Systems and Procedures to be followed

Association:

- All loans and investments are carried out by authorised persons.
- Loan procedures are defined in the Association's Financial Regulations.

Procedures:

- The Association uses an electronic banking system. There are three primary users of this system - the two Finance Managers and the Finance Officer. Secondary users of the system check all transmissions between accounts or to external payees. All transmissions are subsequently checked by the member of staff acting as Supervisor of the banking system to ensure that allowed counterparties have been used and that the limits to counterparties have not been exceeded.

Investment and borrowing transactions:

- A detailed register of loans and investments is maintained.
- A written acknowledgement of each investment deal is sent promptly to the borrowing institution.
- Written confirmations received in respect of investments and borrowings are checked for accuracy and any discrepancies are immediately dealt with.
- All transactions placed through brokers are confirmed by a brokers' note which is checked for accuracy and any discrepancies are immediately dealt with.

Regularity and security:

- Investments are made only to institutions which meet the Associations credit rating criteria.
- There is a separation of duties between the staff involved in transacting treasury management activities and those checking and authorising the deals and payments.
- The Association's bank holds a list of the Association's authorised signatories for financial transactions.
- Neither the Treasury Manager nor Finance Officer are authorised signatories.
- The electronic banking system can only be accessed with a password and security device.
- Dealings done via Internet services carry the usual security safeguards. These dealings are the equivalent of telephone dealings and are backed up by the usual written confirmations, etc.
- The Association has adequate insurance cover for employees involved in loan management and accounting.

1.7.3 Emergency and Contingency Planning Arrangements

- The Association has a Business Continuity Plan in the event that offices which the treasury management team works in are rendered unusable.
- The electronic banking system is web based and can therefore be accessed from any PC with the use of a password and security device. As such, treasury management staff carry their security devices with them rather than keep them in the workplace.
- There is an electronic copy available of all files and information that it would be necessary to access in order for the treasury management function to continue. All computer files are accessible from remote sites and a back up of all servers/files is kept off the main site.

1.7.4 Insurance Cover details

The Association's Insurance providers are Zurich Municipal. Insurance cover for treasury activities is provided via their "Money" Policy and "Fidelity" Policy as follows:

Money Policy

The money policy has a £50 excess for each claim and covers the Association for the following:

Item	Description	Limit of any one loss
1	Loss of Non Negotiable Money in the situations specified in 2a, 2ci, 2cii.	£250,000
2a	Loss of other money in transit in the custody of any Director or Employee, or in transit by registered post, or in a Bank Night Safe.	£1,000
2b	Loss of other money in transit in the custody or control of a security company or similar organisation.	nil
2ci	Loss of other money in the premises in the custody of or under the actual supervision of any Director or Employee	£1,000
2cii	Loss of other money in the premises, in locked safes or strong rooms.	£3,000
2ciii	Loss of other money in the premises, in locked receptacles (other than safes or strong rooms).	£250
2d	Loss of other money in the private residence of any Director or employee	£250

Fidelity Policy

A £100 excess is in place for each claim. The details of the cover is as follows:

Item	Persons Guaranteed	Sum Guaranteed
1	All Employees	£250,000
2	7 Named Employee's – see below	£2,000,000

The seven named individuals referred to above are:

- The Chief Executive
- Deputy Chief Executive and Director of Corporate Services
- Director of Operational Services
- Informaion and Performance Manager
- Finance Manager
- Asset Manager
- Development Manager

Additional insurance is provided on the Corporate Credit Cards by the credit cards provider (Barclaycard). Each card user will be liable for their own misuse and each card will have a spend limit applied. If card users do use their cards inappropriately and the Association is not reimbursed, each card is insured for up to £15,000 and up to £1,000,000 as an organisation as a whole.

The cover also extends to contract and temporary staff. We can claim for all fraudulent card transaction that took place in the 75 days before discovery of the loss and for any further transactions that may come to light in the 14 days of notifying Barclaycard of the loss.

1.8 Market Risk:

The risk that, through adverse market fluctuations in the value of the principal sums the Association borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Association will not invest in products where the capital value of these can fluctuate if they are redeemed prematurely of the maturity date.

TMP 2 Performance Measurement

2.1 Evaluation and Review of Treasury Management Decisions

The Association has a number of approaches to evaluating treasury management decisions:

- **Monthly treasury management team reviews:**
The treasury management team monitor and review cashflow and all treasury management activity on a continual basis. A monthly review meeting is held with the Finance Manager and the contents of this meeting are communicated to the Director of Corporate Services.
- **Monthly Metrics**
The Finance manager will report monthly within the metrics reporting system on the efficiency of treasury management practices within the Association. Operational Management Team will receive these reports. The overall cashflow position will also be reported as part of the management accounts
- **Quarterly Monitoring Reports:**
A quarterly monitoring report on treasury management activity will be presented to the Scrutiny Committee.
- **Annual Review after end of financial year:**
The statutory Annual Review Report required by 30th September each year is submitted to Board. In practice, this review will be presented at the same time as the Statutory Accounts. This report reviews the previous year's performance and contains the following:
 - i. total debt and investments at the beginning and close of the financial year and average interest rates;
 - ii. the strategy for the year;
 - iii. activity in the year;
 - iv. comparison of return on investments to the investment benchmark;
 - v. compliance with Treasury indicators;
 - vi. summary Treasury Management Statement of Accounts;
 - vii. end of year out-turn versus budget;
 - viii. other relevant ad hoc information.
- **Comparative Reviews:**
When data becomes available a comparative review is undertaken to see how the performance of the Association on debt and investments compares to other Housing Associations.
- **Audit:**
The Treasury Management function is subject to internal and external audit checks.

2.2 Benchmarks and Calculation Methodology

2.2.1 Debt Management:

- Average rate interest cost on all external debt
- Gearing
- Interest Cover
- Security Cover

These will be calculated as follows:

$$(i) \quad \text{Average Rate Interest Cost} = \frac{\text{Total interest}}{\text{Total Borrowings}} \times 100$$

(ii) *Gearing, Interest Cover and Security*
This will be based on the methods required by each lender.

2.2.2 Investments:

- 1 month uncompounded London Interbank Bank Bid rate (LIBID)

LIBID is the interest rate London banks pay for deposits from other banks, unlike LIBOR, which is the rate at which banks lend money.

2.3 Policy concerning methods for testing value for money in treasury management

2.3.1 Banking services:

Banking services are retendered, market tested or renegotiated every five years to ensure that the level of prices can demonstrate they are cost effective.

2.3.2 Money-broking services:

If required, the Association would use money broking services to make some deposits and/or to borrow, and charges for all services are established prior to using them. A minimum deal to use a broker is set at £1m.

The following brokers would be used on a rotatory basis in order to achieve fairness and the most favourable rates:

- Tullett Prebon (Europe) Ltd.
- Tradition (UK) Ltd.
- Sterling International Brokers Ltd.
- Martin Brokers (UK) Ltd.

Additional brokers may be added to the list, if and when necessary, at the discretion of the Treasury Manager. All brokers are regulated by the Financial Services Association under the provisions of the Financial Services and Markets Act 2000.

2.3.3 Consultants/advisors services:

The Association's policy is not to appoint full-time professional Treasury Management Advisors but rather appoint such consultants when specialist advice is required.

2.3.4 External Fund Managers:

It is not the Association's current policy to appoint external investment fund managers. This is because it is felt that, at present, the appointment of such managers would not justify the investment of senior management time in terms of the expected marginal return over what can be achieved internally, given the low levels of surplus cash that the Association currently holds. Appointments of external providers rests with the Board of Management and is subject to the normal tendering procedures.

TMP 3 Decision-making and analysis

3.1 Funding, borrowing, lending and new instruments/techniques

3.1.1 Records to be kept:

- cash balance forecasts
- statutory documentation
- register of loans and all associated paperwork
- register of investments and all associated paperwork

3.1.2 Processes to be pursued:

- cashflow analysis.
- debt and investment maturity analysis
- ledger reconciliation
- review of opportunities for debt restructuring
- review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- performance information e.g. monitoring of actuals against budget for debt charges, interest earned, debt management and monitoring of average debt rate, investment returns, etc.

3.1.3 Issues to be addressed:

In respect of every treasury management decision made the Association will:

- be clear about the nature and extent of the risks to which the Association may become exposed with reference to the CIPFA Code of Practice giving priority to security of capital and liquidity before yield
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities and approvals to proceed have been obtained

- be content that the documentation is adequate both to deliver the Association's objectives and protect the Association's interests, and to deliver good housekeeping
- ensure that third parties are judged satisfactory in the context of the Association's creditworthiness policies and that limits have not been exceeded
- be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

In respect of borrowing and other funding decisions, the Association will:

- evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the ongoing revenue liabilities created and the implications for the Association's future plans and budgets.

In respect of investment decisions, the Association will:

- consider the optimum period, in the light of cash flow availability and prevailing market conditions
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the Association to changes in the value of its capital.

TMP 4 Approved instruments, methods and techniques

4.1 Approved activities of the treasury management function

- borrowing
- lending
- debt repayment and rescheduling
- consideration, approval and use of new financial instruments and treasury management techniques
- managing the underlying risk associated with the Association's capital financing and surplus funds activities
- managing cash flow
- banking activities
- leasing
- managing the underlying exchange rate risk associated with the Association's business

4.2 Approved instruments for investment

The Association will undertake its treasury management activities by employing only those instruments, methods and techniques which it is permitted to do so under the Association's rules. As noted above these are:

- Forward fix arrangements;
- Interest rate caps (maximum interest rate);
- Interest rate floor (minimum interest rate);
- Interest rate collar (maximum and minimum interest rates);
- Cancellable option (the right at a specified period to terminate the fixed interest rate).

4.3 Approved Methods and Sources of Raising Capital Finance

The Association has a number of approved methods and sources of raising capital finance as follows:

On Balance Sheet	Fixed	Variable
Bonds	x	
THFC	x	x
Market Loans (long-term)	x	x
Market Loans (temporary)	x	x
Market Loans (LOBOs)	x	x
Overdraft		x
Leasing (not operating leases)	x	x
Other Methods of Financing		
Government and European Community Capital Grants		
Lottery monies		
Private Finance Initiatives (PFI's)		
Public Private Partnerships (PPP's)		
Operating Leases		

Borrowing will only be done in Sterling. All methods of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. and will be subject to approval from the Board of Management.

4.4 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.5 Borrowing Limits

There are no borrowing limits other than the limits placed by the Gearing Covenants agreed with our loan providers.

TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

5.1 Allocation of responsibilities

Board of Management

- Approval of the Annual Investment Strategy.
- Receiving, reviewing and approving if necessary reports on treasury management policies, practices and activities.
- Approval of the Association's Treasury Management Policy Statement and Treasury Management Practices (TMP's)
- Budget consideration and approval
- Approving the selection of external service providers and agreeing terms of appointment.
- Approval of new loan facilities.

Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the Board.
- providing independent assurance that there are adequate controls in place by to regularly monitor treasury management performance.

5.2 Principles and Practices concerning Segregation of Duties

The segregation of duties to ensure the security of the Association's monies is fundamental to the Treasury Management function. The details regarding this are set out in 5.3 below which schedules the relevant officers involved in the Treasury Management function and their specific responsibilities.

5.3 Treasury Management Organisation of Staff

- Director of Corporate Services
- Finance Manager
- Treasury Accountant
- Finance Officer

5.4 Statement of Duties/Responsibilities of each Treasury Management Post

5.4.1 Director of Corporate Services

All monies in the hands of the Association will be aggregated for the purpose of Treasury Management and will be under the control of the Director of Corporate Services. All decisions on borrowing, investment or financing will be delegated to the Director of Corporate Services or through him to his staff who will all be required to act in accordance with the CIPFA Code of Practice and all other relevant guidance.

1. The Director of Corporate Services will have responsibility for:

- preparing the Treasury Management Policy Statement and Practice Schedules for approval, reviewing the same regularly and monitoring compliance
 - recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
 - submitting regular treasury management policy reports
 - submitting budgets and budget variations
 - receiving and reviewing management information reports
 - reviewing the performance of the treasury management function
 - ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - ensuring the adequacy of internal audit, and liaising with external audit
 - assessing and recommending the appointment of external service providers.
 - to assume responsibility for securing loan facilities, entering into negotiations with Building Societies and other private lenders, and investigating potential new lenders; to work with Executive Group in agreeing scheme specific terms of loan agreements; to act as authorised signatory in all dealings with private lenders.
2. The Director of Corporate Services may delegate his power to invest to members of his staff. The Finance Manager, Treasury Manager or the Purchase Ledger Clerk must ordinarily conduct all dealing transactions, with other staff within the Finance Section acting as temporary cover for leave/sickness. All transactions must be signed by one of the authorised signatories from the bank mandate (see Appendix C).
 3. The Director of Corporate Services will ensure that the Treasury Management Policy is adhered to and, if not, will bring the matter to the attention of Scrutiny Committee as soon as possible
 4. The Director of Corporate Services will be satisfied that, prior to entering into any capital financing, lending or investment transaction, the proposed transaction does not breach any statute, external regulation or the Association's Financial Regulations.

5.4.2 Finance Manager

The responsibilities of these posts will be:

- managing the overall Treasury Management function
- ensuring overall compliance with policies
- ensuring appropriate division of duties.
- ensuring that the Treasury Management section is always relevantly staffed and that there are suitable arrangements for absence.
- responsibility for the operation of bank accounts as are considered necessary, with weekly or monthly reconciliations. Opening or closing

any bank account will require the approval of the Director of Corporate Services.

- Provide information to Welsh Government and other bodies as required.
- management and reconciliation of all the Association's banking arrangements and processes

5.4.3 Treasury Accountant

The responsibilities of this post will be:

- arranging and execution of transactions
- adherence to agreed policies and practices on a day-to-day basis
- maintaining relationships with third parties and external service providers
- monitoring performance on a day-to-day basis
- submission of reports on behalf of the Finance Manager
- supervising the treasury duties of the Finance Officer
- identifying and recommending opportunities for improved practices
- preparing interest cost and outstanding loan estimates.

5.4.4 Chief Executive

The responsibilities of this post will be:

- ensuring that the system is specified and implemented
- ensuring that the Director of Corporate Services reports when necessary to Board on treasury management policy, activity and performance.

5.4.5 Internal Audit

The responsibilities of Internal Audit will be:

- reviewing compliance with approved policy and procedures
- reviewing division of duties and operational practice
- assessing value for money from treasury activities
- undertaking probity audit of treasury function.

5.5 **Absence Cover Arrangements**

The Association's policy is for either the Finance Manager, Treasury Accountant or Finance Officer to be present on a daily basis. On the rare occasion of none of these officers being present, the Service Charges Co-ordinator is available to provide cover.

5.6 **Dealing Limits**

All Treasury Management staff are able to deal such amounts of cash that are available on a daily basis within the counterparty limits set down. Such deals are authorised prior to settlement by an authorised signatory.

5.7 Policy on Brokers' Services

If required, the Association would use money broking services to make some deposits and/or to borrow, and charges for all services are established prior to using them. A minimum deal to use a broker is set at £1m. The current list of approved brokers is detailed in policy 2.3.2 of this document.

5.8 Policy on taping of conversations

The Association's current policy is not to tape telephone conversations in respect of dealing transactions although this is within the power of the person making the call to do so. In addition, it can be the policy of counterparties to tape telephone dealing conversations and the Association is pre-notified of this.

5.9 Direct Dealing Procedures

All Treasury Management staff are authorised to deal directly with the institutions that do so. Direct dealing has to be carried out in respect of Deposit/Call Accounts and Money Market Funds. Other direct dealing is carried out when the Association is aware that better terms will be available.

5.10 Settlement Transmission Procedures

The Treasury Accountant will advise the Finance Officer of the required investment by email. Details of the investment are input into the Associations' electronic banking system. This is done by one of the primary users of the system which is usually the Finance Officer. The details and initial email request are then printed.

These details are checked and signed off by an Authorised Signatory. The authorised details are then verified in the Banking system by a second Authorised signatory. Once verified the payment is automatically sent by the Banking system. The second authorised signatory will initial the authorised details showing that the payment was verified and therefore sent.

The hardcopy of the authorised details of the transaction filed in the BACS payment file.

5.11 Documentation Requirements

All transactions are detailed in a loans or investments register. All documentation relating to the transaction is kept on file.

5.12 Arrangements concerning the Management of Third Party Funds

The Association holds some cash in respect of third party funds in the Association's bank account, most notably Leaseholder's sinking funds. A separate bank account is maintained for each scheme for the holding of funds for future maintenance obligations.

TMP6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

The Association has the following reporting arrangements in accordance with the revised Code of Practice:

Report/Document	Committee	Frequency
Treasury Management Policy Statement and Practices	Board of Management	When changes require or every three years
Treasury Management Strategy Statement and Annual Investment Strategy	Board of Management	Annually before the start of financial year
Treasury Management Update	Scrutiny Committee	Quarterly
Treasury Management Review	Board of Management	Annually with the Statement of Accounts
Monthly Metrics and Cashflow	Operational Management Team	Monthly

6.2 Annual Treasury Management Strategy Statement

6.2.1 The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Board of Management for approval before the commencement of each financial year.

6.2.2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates and investment plans. For instance, the Association may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

6.2.3. The Treasury Management Strategy Statement is concerned with the following elements:

- treasury indicators and metrics
- the current portfolio position
- borrowing requirement
- the prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- investment strategy
- creditworthiness policy

- policy on the use of external service providers
- any extraordinary treasury issue such as on-lending to a subsidiary or other housing association.

6.2.4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives using all available information such as published interest rate forecasts where applicable, and will highlight sensitivities to different scenarios.

6.3 Annual Investment Strategy

At the same time as Board of Management receives the Treasury Management Strategy Statement it will also receive the Annual Investment Strategy which will set out the following:

- the Association's risk appetite in respect of security, liquidity and optimum performance
- the definition of high credit quality
- the Association's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- which credit rating agencies the Association will use
- how the Association will deal with changes in ratings, rating watches and rating outlooks
- limits for individual counterparties and group limits
- levels of cash balances
- interest rate outlook
- Treasury Management Budget
- use of a cash fund manager (if applicable)
- policy on the use of external service providers.

6.4 Best Value and Performance Measurement

6.4.1 The Association is committed to the pursuit of best value in its treasury management function, and to the use of performance methodology in support of that aim. Accordingly, the treasury management function will be considered within the Association's overall continual improvement plans. To measure the performance of the treasury management function the following information will be collated on an on-going basis:

- Details of investments made;
- details of new loans drawn down;
- details of refinancing exercises undertaken;
- an independent review of the Association's loan portfolio, at least every five years.

And this will be reviewed on a monthly basis by the Finance Manager who will use the information to inform future decision making.

With regard to performance management the following will also be included:

- Interest receivable;
- weighted average interest rate paid;
- interest paid on fixed loans;
- interest paid on variable loans;
- percentage of fixed to variable debt;
- exposure profile expressed as a graph; showing level of fixed, variable, proposed drawdowns and repayments

6.4.2 The Director of Corporate Services is also responsible for ensuring compliance with the gearing, interest cover and security limits. These limits are set by the funders and can only be changed through re-negotiation with the funders.

6.5 **Mid-Year Review**

6.5.1 The CIPFA Code of Practice recommends a minimum mid-year review report on treasury management activities, this will be presented to Board. The association will go beyond this by present quarterly reports to Operational Management Team and Scrutiny Committee.

6.6 **Annual Review Report**

6.6.1 An annual report on Treasury Management activity will be presented to the Board of Management by the end of July following the financial year in question. This report will include the following:

- a comprehensive picture for the financial year of all treasury policies, activities and results;
- monitoring of compliance with approved policy, practices and statutory/regulatory requirements;
- performance report;
- report on compliance with the CIPFA Code recommendations;
- monitoring of treasury management indicators.

6.7 **Quarterly Activity Report**

A quarterly report on Treasury Management activity will be presented to the Scrutiny Committee.

6.8 **Monthly Report**

The monthly metrics and cashflow will be reported to OMT.

TMP7 Budgeting, Accounting and Audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Statement of Recommended Practice (SORP) for Registered Social Housing Providers in Great Britain that is recognised by statute as representing proper accounting practices. The Association has also adopted in full the principles set out in CIPFA's Treasury Management in the Public Services Code of Practice, together with those of its specific recommendations that are relevant to this Association's treasury management activities.

7.2 Accounting Practices and Standards

The Treasury Management function gives regard to the Statements of Recommended Practice and Accounting Standards as they apply to Housing Associations.

7.3 Sample Budgets/Accounts/Treasury Indicators

A 30 year Business Plan is Prepared including a 30 year cashflow, this is then broken down into a five year plan. This plan incorporates the budget for the forthcoming year and provisional estimates for the following four years. The Finance Manager prepares the Treasury Management Strategy Statement and Annual Investment Strategy with Treasury Management Indicators for Board approval. The Treasury Manager monitors actual spend against the budget and monitors performance against the Treasury indicators. Any changes required are reported to Board.

An end of year summary Treasury Management Statement of expenditure/ income is produced and is incorporated in the annual Treasury Management Review Report in respect of that year.

A summary Treasury Management budget is produced and incorporated in the annual Treasury Management Strategy Statement and Annual Investment Strategy Report.

7.4 List of Information Requirements of External Auditors

The external auditors have access to all paperwork supporting and explaining the operation and activities of the Treasury Management function as follows:-

- Reconciliation of loans outstanding in the ledger to Treasury Management records.
- Maturity analysis of loans outstanding.
- Certificates/Statements for new long term loans taken out in the year.
- Reconciliation of loan interest, discounts received and premiums paid to the ledger.
- Calculation of loans fund interest and debt management expenses and their reconciliation to the ledger.
- Interest accrual calculation.

- Details of interest capitalised.
- Analysis of any deferred charges.
- Annual Treasury Report.
- Treasury Management Strategy Statement and Treasury Indicators.

7.5 Regular Budget Monitoring

Regular budget monitoring reports are produced and reported to Operational Management team and Board on a quarterly basis. Reports are intended to highlight any variances between budgets and spend in order that the Association can assess its financial position. Details of treasury management activities are included within these reports.

TMP8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

- 8.1.1 Weekly cashflow projections for at least a year ahead are prepared daily and continuously maintained by the Treasury Management section. They are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.
- 8.1.2 The content covers all income and expenditure of the Association together with details of bank balances and investments. All transactions are shown on a weekly basis and the cash figures are checked daily and balanced on a weekly basis. (See Appendix E for one week's example.)
- 8.1.3 Information is sourced from the following:
- purchase ledger system
 - rental projections
 - payroll system
 - loans registers
 - correspondence re: grant awards/ subsidy
 - maintenance spend plans
 - development team for development scheme payments
- 8.1.4 The projections allow the following to be determined:
- whether minimum acceptable levels of cash balances plus investments might be breached
 - the adequacy (or otherwise) of standby/overdraft facilities or other contingency arrangements
 - the optimum arrangements to be made for investing and managing surplus cash

8.2 Bank Statements Procedures

8.2.1 Bank Accounts:

It is the responsibility of the Finance Manager to operate such bank accounts as are considered necessary. Bank accounts are reconciled weekly. Opening or closing a bank account requires the approval of the Board of Management in conjunction with the Director of Corporate Services. Bank accounts must all be in the name of Mid-Wales Housing Association Ltd., including any held for leasehold schemes.

Responsibility on a daily basis for banking arrangements, procedures, and reconciliations is delegated to the Treasury Management section. Instructions regarding banking arrangements are only accepted by the Association's bankers from the Treasury Staff and, if relevant, accompanied by the necessary authorised signatures.

8.3 Petty Cash Account

It is the responsibility of the Director of Corporate Services to provide employees of the Association with cash accounts to meet minor expenditure on behalf of the Association.

8.4 Credit Cards

Certain individuals are permitted to hold corporate credit cards. The Finance Office will administer these cards. New credit card holders and changes to the spend limits can only be authorised by the Chief Executive. Changes to the Chief Executive's spend limit can only be approved by Board as per the Association's Financial Regulations. The current credit card holders are as follows:

Cardholder Post	Limit
IT and Performance Manager	£5,000
Asset Management Co-ordinator	£250
Asset Management Co-ordinator	£250
HR Co-ordinator	£1,000
Director of Operational Services	£10,000
Director Corporate Services	£1,500
Chief Executive	£1,000

8.5 Payment Scheduling and Agreed Terms of Trade with Creditors

The Association's policy is to pay creditors within 28 days of the invoice date being received unless specified in a contract or other given payment terms. For example contractors appointed under Undod are to be paid within 14 days. Cheque and BACS runs are made on the basis of picking up all payments due before the next run to ensure timely payment. Performance indicators are produced in respect of timely payments.

8.6 Arrangements for Monitoring Debtors/Creditors Levels

Debtors:

Invoices issued through the Sundry Debtors system are monitored on a regular basis and reminders sent. Non-paid items over three months old and over £1,000 in value are referred to Finance Manager.

Creditors:

A monthly report is produced for the monitoring of creditor levels and the timeliness of payments to suppliers.

8.7 Procedures for Banking of Funds

The Association's financial regulations state that any money received by an employee on behalf of the Association is paid without delay to the Finance Team or, as they direct, to the Association's bank account and is properly recorded by the issue of a receipt or controlled ticket or by direct entry into a receipting system. The maximum of £3000 is to be kept in the safe overnight being the insurance limit.

8.8 Practices concerning Prepayments to obtain Benefits

The Association has no formal arrangement in place. However, in certain circumstances, where such opportunities arise and where prepayment may be of particular benefit to the Association then prepayment may be sought and authorised by the responsible officer.

TMP9 Money Laundering

- 9.1 Money laundering has the objective of concealing the origin of money generated through criminal activity. The regulations concerning money laundering changed with effect from 15th December 2007 with the implementation of The Money Laundering Regulations 2007. The related legislation to these regulations are The Terrorism Act 2000; The Anti-Terrorism, Crime and Security Act 2001; and The Proceeds of Crime Act 2002.

Money laundering is the process by which money or other assets obtained through crime is exchanged for clean money or assets without an obvious link to the money's criminal origins. The UK anti-laundering regime has evolved over a number of years and the latest elements were introduced on 1st January 2010. To help protect housing associations from the effects of money laundering the National Housing Federation ('Federation') published guidance on anti-money laundering in May 2010 in conjunction with Tait Walker.

- 9.2 Registered Social Landlords are not bound by the Money Laundering Regulations 2007 but are bound by the Proceeds of Crime Act 2002. As such, Registered Social Landlords are not required to appoint a Money

Laundering Reporting Officer, but only a nominated officer who carries out anti-money laundering duties as per The Proceeds of Crime Act 2002.

9.3 The guidance from the Federation is that Associations should follow the Money Laundering regulations and guidance if they are involved in any aspect of selling a property.

9.4 The Association's Money Laundering Policy can be found at:
<G:\Public Folders\Approved Policy and Procedure\Money Laundering>

9.5 **Procedures for Establishing Identity/Authenticity of Lenders**

It is not a requirement under the Proceeds of Crime Act 2002 for Registered Social Landlords to require identification from every person or organisation it deals with. However, in respect of Treasury Management transactions, there is a need for due diligence and this will be affected by following the procedures below:

- The Association does not accept loans from individuals.
- All loans are obtained from the THFC, local authorities or from authorised institutions under the Financial Services and Markets Act 2000: a register of such institutions is maintained by the Financial Services Association (FSA).

9.6 **Methodology for Identifying Sources of Deposit**

In the course of its Treasury Management activities, the Association will only lend money to or invest with those counterparties that are on its approved lending list.

These will be local authorities, Housing Associations, THFC, the Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000: a register of such institutions is maintained by the Financial Services Association (FSA).

TMP10 Staff Training and Qualifications

10.1 The Association recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- treasury management staff employed by the Association
- Members charged with governance of the treasury management function.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. All treasury management staff that are members of an appropriate professional body will be trained in line with the continuing professional development requirements

of these professional bodies. The Association operates an Annual Professional Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training is also provided on the job and it is the responsibility of the Director of Corporate Services to ensure that all staff under their responsibility receive the level of training appropriate to their duties.

10.2 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by relevant bodies.

10.3 Records of Training received by Treasury Staff

As required by their relevant professional bodies, treasury management staff will maintain records of training they receive.

10.4 Approved Qualifications for Treasury Staff

It is the Association's policy that the Treasury Manager is qualified to at least AAT level. The Finance Manager must be a fully qualified accountant.

10.5 Record of Secondment of Senior Management

There is no formal policy for this as the situation does not arise.

10.6 Member training records

Records will be kept of all training in treasury management provided to Members.

10.7 Members charged with governance of Treasury Management

Members charged with governance have a personal responsibility to ensure that they have the appropriate skills and training for this role.

TMP11 Details of Contracts with Service Providers including Bankers, Brokers, Consultants and Advisers

11.1 The Association will not employ the services of other organisations to assist it in the day to day treasury management activities. However, it will use external consultants to provide specialist advice in this ever more complex area. The Association will ensure that it fully understands what services are being provided and that they meet the needs of the Association, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice. Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance:

- the quality financial press
- market data
- information on government support for banks and the credit ratings of that government support.

11.2 **Banking Services**

- | | |
|--|---------------|
| a) Name of supplier of service | Barclays Plc |
| b) Last contract review date | 1st June 2011 |
| c) Contract end date | 31st May 2014 |
| d) The cost of the service varies as it is on a turnover basis. However, the rates are fixed for the term of the contract. | |
| e) Charges are made monthly | |
| f) There are no specific terms for early termination of the contract. | |

11.3 **Money-broking services**

See TMP2.

11.4 **Treasury Consultants/Advisors' Services**

The Association does not use a general Treasury Consultant but will on one off projects if a specialised knowledge is required. However, on a five-year basis an external consultant will be appointed to review our loans.

11.5 **Leasing Consultancy Services**

The Association does not have a lease consultant.

11.6 **External cash/fund management services**

It is not the Association's current policy to engage the services of cash/fund managers.

11.7 **Credit-rating agencies**

The Association will use reports from the following credit rating agencies

Fitch
Standard & Poors
Moody's

11.8 Procedures and Frequency for tendering services

See TMP2.

TMP12 Corporate Governance

12.1 List of Documents to be made available for Public Inspection

12.1. The Association is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

12.2 It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the CIPFA Code.

12.3 The following documents are available on the Association's website:

- Treasury Management Policy Statement
- Treasury Management Strategy Statement & Annual Investment Strategy
- Minutes of Board & Scrutiny Committee meetings
- Annual Treasury Review Report
- Treasury Management monitoring reports
- Annual Financial Statement
- Annual budget
- Year Business Plan

1. Interest Rate Exposure

The setting of upper and lower limits for interest rate exposures has the effect of creating ranges within which the Association will limit its exposure to both fixed and variable interest rate movements. As dictated by the CIPFA Code of Practice this indicator for fixed and variable limits is calculated by looking at the net position between debt and investments. The current limits approved by the Board of management are as follows:

Fixed Limits: 70% + or – 10%

Variable Limits: 30% + or – 10%

In addition no more than 10% of Total Borrowings will be in Index linked loans.

2. Maturity Structure of Borrowing:

Housing Associations are exposed to the risk of having to refinance debt at a time in the future when interest rates may be volatile or uncertain. This indicator is designed to assist the Board of Management in avoiding large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time. It is recommended that the Association sets upper and lower limits in each period as a percentage of its total borrowings.

The limits for 2013/14 proposed:

	Upper Limit	Lower Limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	40%

3. Gearing (As agreed with Loan Providers)

The limits have been set below but the Association plans to operate to a ceiling of 64% to give some flexibility and measure of contingency.

	2012/13	2013/14	2014/15
	%	%	%
Limit	65	65	65

4. Interest Cover (As agreed with Loan Providers)

The following represents the highest % requested so will be the target

	2012/13	2013/14	2014/15
Interest Rate Cover Required	115%	115%	115%

4. Weighted Average Interest

The average cost of borrowing target is set at 4.5%.