

TREASURY POLICY STATEMENT

Policy Owner	Andrew Martin
Policy Sponsor	Andrew Martin

Version Control	Date of Current Review	Date of Next Review	Reviewed by
V2	15 December 2020	December 2023	Board
V1	29 January 2019	January 2020	Board

CORPORATE FIT	
Internal Management Plan	
Risk Register	
Business Plan	
Regulatory Standards	
Equalities Strategy	
Legislation	

TREASURY POLICY STATEMENT

1. Statement of Principles

- 1.1 The Society's Treasury Management Policy will be operated in accordance with the following principles:
- i. The Society will put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury activities.
 - ii. Effective management and control of risk are prime objectives of the Society's treasury management activities and responsibility for these activities lies clearly within the organisation. The appetite for risk forms part of the overall strategy including the use of financial instruments for the prudent management of those risks, ensuring priority is given to security and liquidity when investing funds.
 - iii. The society acknowledges that value for money in treasury management, and the use of suitable performance measures are valid and important tools to employ in support of our business within the context of effective risk management.
 - iv. The Society is committed to the highest standards of governance and acknowledges the importance of transparency, integrity and accountability in its treasury management activities. In particular, the society will comply with the Scottish Housing Regulators guiding standards:
 - **Guiding Standard 4.4 Risk Management**
'We identify and appraise the most important risks we face, and we take a prudent approach to managing them'
 - **Guiding Standard 4.5 Ethical Standards**
'We conduct our affairs with honesty and integrity'
 - **Guiding Standard 4.6 Financial Viability**
'We are a financially sound and viable business'
 - **Guiding Standard 4.7 Financial Management**
'We have a robust financial management framework in place'
- 1.2 The Society will comply with the Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (2017) and Cross Sectional Guidance Notes, "the code"
- 1.3 The Society will also comply with the Scottish Housing Regulators Treasury Management Guidance published in August 2015.

2. Scope

2.1 This Policy Statement sets out Albyn Group (Albyn) policy concerning all of its funding or borrowing from external sources and the lending or investment of surplus balances. It also deals with internal movements of surplus funds between accounts established by Albyn. In addition, the policy covers cash and cash flow management and details the delegation of responsibility for treasury activity and its reporting requirements. This Statement has been adopted by Albyn as part of its standing orders/financial regulations.

3. Approved Activities

3.1 Treasury management comprises the management of the organisation'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.

3.2 The Principal activities of the Treasury management function within Albyn will include activities such as:

- Borrowing of funds for housing capital projects
- Borrowing of funds for other group purposes
- Investment of surplus funds to gain an adequate return
- The Arrangement of overdraft facilities
- The management of our own resources to fund capital and other investment projects

3.3 All treasury management activities involve risk and potential reward. The policy of Albyn in the lending of cash is to achieve a satisfactory return while minimising risk. The overriding principle is to avoid risk rather than to maximise return. In the case of borrowing, the objective is to minimise cost consistent while ensuring the stability of Albyn's financial position by sound debt management techniques.

3.4 Albyn and, subject to the delegated authorities set out below, Board and officers are authorised subject to the provisions of this Policy Statement to:

- ♦ deposit the surplus funds of Albyn with and purchase certificates of deposit issued by any of the institutions listed in Appendix B of this statement up to the maximum limit or sub-limit for each individual institution;
- ♦ borrow monies within the limits established by Scottish Housing Regulator or as required for specific projects as authorised by the Board and subject to the strategy agreed by the Board.

3.5 Albyn will not undertake currency risk and accordingly will not borrow, or deposit funds denominated in foreign currencies.

4. Formulation of Strategy

- 4.1 Albyn's strategy for the application of its treasury policy as set out in this statement will be the responsibility of the Director of Finance & Corporate Services and approved by the Board. This will be part of the annual review of the loan portfolio which is undertaken in the first quarter of each financial year.
- 4.2 The Director of Finance & Corporate Services will prepare for approval of the Board an annual forecast of surplus funds and borrowings for the ensuing financial year as part of the annual review of the loan portfolio. He/she also prepares for the approval of the Board a strategy for funding Albyn's borrowing requirements and lending surplus cash for the period covered by the forecast.
- 4.3 In considering the strategy he/she has regard to the maintenance of the stable financial position of Albyn, to ensuring that Albyn has sufficient and appropriate facilities available to it to meet both its long term borrowing requirements and its planned short term borrowing requirements. Sufficient facilities should also be available to meet funding needs arising from uncertainties inherent in the planning process in the timing and amount of cash flows.
- 4.4 The Director of Finance & Corporate Services also has regard to the current levels of short and long-term interest rates and to forecasts of future changes in interest rates and prepares a recommendation for approval by the Board and consideration by the Board of the total borrowing requirements and the maximum proportion of interest on borrowing which is subject to variable rates of interest. Matters to be considered in determining the strategy for interest rate exposure are considered further below.
- 4.5 In considering Albyn's position the Director of Finance & Corporate Services will consider the aggregate of all of the funds, borrowing and accounts operated by Albyn. For the purposes of determining individual accounts of Albyn, surplus funds are lent internally between accounts and earn interest on outstanding balances on a daily basis at such rate as the Director of Finance & Corporate Services may determine.
- 4.6 The Director of Finance & Corporate Services has delegated powers to carry out Albyn's strategy for depositing surplus funds and managing the cash flow of Albyn. In exercising these powers, he/she has regard to the perceived credit risk associated with the approved institutions with which funds may be deposited or invested, to the effect of possible changes in interest rates on the cost of borrowing and the return from investing and the need to maintain adequate liquid funds to meet Albyn's obligations.

5. Treasury Risk Management

- 5.1 Albyn regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment. The Director of Finance & Corporate Resources 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 organisation's objectives in this respect. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out within this document.

Credit and Counterparty Risk Management

- 5.2 Albyn will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its treasury management investment activities to the instruments, methods and techniques referred to in this policy document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Liquidity Risk Management

- 5.3 Albyn will ensure it has adequate though not excessive cash resources, borrowing arrangements, 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. This organisation 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.

Interest Rate Risk Management

- 5.4 Albyn 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. It will achieve this by the prudent use of its approved 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.
- 5.5 It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Exchange Rate Risk Management

- 5.6 Albyn will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels in cases of significant dealings in foreign currency.

Inflation Risk Management

- 5.7 Albyn will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Refinancing Risk Management

- 5.8 Albyn will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation 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.

Legal & Regulatory Risk Management

- 5.9 Albyn 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, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. Albyn recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, Error and Corruption, and Contingency Management

- 5.10 Albyn 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.

Price Risk Management

- 5.11 Albyn 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.

6. Approved Methods of Raising Capital Finance

- 6.1 The Director of Finance & Corporate Services, in conjunction with the Chief Executive, undertakes on its behalf the borrowing activities of Albyn. He/she cannot commit Albyn to any borrowing for capital purposes without obtaining the specific authority of the Board.
- 6.2 The Director of Finance & Corporate Services will prepare for the Board a report for each proposed capital borrowing. The report will include:
- ◆ Proposed lender
 - ◆ Interest rate structure - fixed, variable, variable with options to fix, index linked, deferred interest
 - ◆ Interest rate - base plus lenders margin
 - ◆ Arrangers fees
 - ◆ Security arrangements
 - ◆ Purpose - with cash flows
 - ◆ Comparison with alternative (where applicable)
 - ◆ Any other matters, which might assist the Board in considering the proposal.

7. Approved Sources of Finance

- 7.1 In undertaking borrowing activities, the Director of Finance & Corporate Services is authorised to borrow from any of the sources set out in the list below:
- ◆ Bank of Scotland Plc
 - ◆ RBS
 - ◆ Lloyds Bank Plc
 - ◆ Clydesdale Bank
 - ◆ HSBC Bank Plc
 - ◆ Svenska Handelsbanken
 - ◆ Nationwide Building Society
 - ◆ Scottish Building Society
 - ◆ Barclays Bank Plc
 - ◆ Santander UK
 - ◆ Triodos Bank
 - ◆ The Highland Council
 - ◆ And any other body approved by the Board (TBC)
- 7.2 Due to the fluid nature of the funding market and the emergence of alternative funding sources especially the bond market and specific financial products for Housing Associations such as Local Authority loans the Director of Finance &

Corporate Services will request the Board to approve these sources specifically as appropriate on a case by case basis within the terms of this policy.

8. Investing and Depositing of Surplus Funds

- 8.1 The overriding principle guiding the investing of surplus cash balances is the preservation of the capital value of Albyn's resources. In this respect, the society is risk averse.
- 8.2 The Director of Finance & Corporate Services has delegated authority to invest the surplus funds of Albyn in accordance with the "Annual Treasury Report and Guidelines" and in accordance with the terms of this statement. He/she is authorised to deposit or invest funds only with the institutions and subject to the limits set out in Appendix B to this statement and approved annually by the Board.
- 8.3 The list of approved institutions will be kept under review ensuring that all will hold the following characteristics:
- The institution has a superior ability to repay short-term debt obligations (P-1)
 - Is of the highest credit quality
 - Has strong capacity to meet its financial commitments (A)
- 8.4 The Director of Finance & Corporate Services is responsible for monitoring the credit worthiness of approved deposit takers using appropriate external sources of information, including credit agency reports, and limiting exposure below the approved limits where appropriate. Individual limits can only be exceeded with the prior consent of the Board.
- 8.5 In exercising this judgement, no deposits should be placed with institutions where there is publicly-available information which suggests there is a possibility that the institution may not be able to meet its financial commitments.
- 8.6 The UK Government is included as an 'approved investment institution' as the Society may wish to secure its capital during a 'banking crisis' such as that experienced in 2008/09.

9. Cash & Cashflow Management

- 9.1 The preparation of cash flow projections on a regular and timely basis provides a sound framework for effective cash management. The preparation and review/modification, periods to be covered, sources of data, are an integral part of the approved treasury management practices.
- 9.2. The Director of Finance & Corporate Services will prepare regular cash and cash flow management forecasts and actuals to be able to determine:
- whether minimum acceptable levels of cash balances plus short-term investments might be (or have been) 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
 - where capital expenditure and investment is financed initially through internal cash reserves, allowing the requirement for borrowing to be deferred to future years, consideration of the impact on future liquidity.
- 9.3. Current account balances will be set at £500,000 for the Albyn main account with surplus funds swept up to an interest-bearing account on a nightly basis. The designated rent account will hold a current account balance of £25,000 with surplus funds swept up to an interest-bearing account on a nightly basis.
- 9.4. It is also important to put in place proper policies and practices concerning the management of relationships with debtors and creditors. The Director of Finance & Corporate Services will ensure that:
- Payments are scheduled to take account of cash flow and agreed terms of trade
 - pricing and charging policies are adhered to
 - The levels of debtors and creditors are monitored to enable corrective action for cash flow purposes
 - Practices make effective use of clearing bankers' services, particularly concerning clearance of funds and low-cost funds transmission.

10. Interest Rate Exposure

- 10.1 The Director of Finance & Corporate Services is responsible for monitoring Albyn's interest rate exposure and for determining the interest rate exposure strategy with the limits set out by the "Annual Treasury Report and Guidelines".
- 10.2 The principle factor governing the exposure of surplus funds to interest rate movements is Albyn's liquidity forecast. Where surplus funds are required to meet possible cash outflows in the near future they will necessarily be deposited short term for periods, which will ensure that funds are available when required. Where surplus funds are expected to be available for investment for longer periods the "Annual Treasury Report and Guidelines" will give guidance on interest rate exposure policy. Where surplus funds are to be used to repay borrowings on maturity, the maturity for which the funds are deposited should match as closely as possible the maturity of the related borrowings.
- 10.3 Appendix C sets out guidance on policy governing the exposure of borrowings to interest rate movements.
- 10.4 The Treasury Management Policy does not detail the procedures that Albyn will adopt when considering Derivatives. The rules of Albyn allow these to be put in place but as these differ on a case by case basis these will be dealt with at Board level with the relevant delegated powers being considered at that stage. No derivatives will be put into place without the express authority of the Board

11. Legal Issues

- 11.1 Prior to entering into a borrowing or investment transaction it is the responsibility of the Director of Finance & Corporate Services to satisfy himself/herself by reference (if necessary) to Albyn's legal advisors that the proposed transaction does not breach any statute, external regulation or Albyn's own financial regulations.

12. Delegation

- 12.1 Albyn has drawn up and approved a scheme of delegation for the operation of treasury policy, a summary of which is set out in appendix D.

13. Review and Reporting

- 13.1 The Director of Finance & Corporate Services reports annually to the Board on treasury activities. An indication of matters to be included in the reports is set out in Appendix E to this statement. Other matters are drawn to the attention of the Board.

APPENDIX A

MATTERS TO BE INCLUDED IN THE ANNUAL REPORT

- ◆ Forecast cash flows for the next financial year and for the next two financial years.
- ◆ Details of existing borrowings. (reported annually)
- ◆ Proposals to be submitted to the Board for information and approval:
 - total outstanding borrowing
 - maximum short-term borrowing (if any) included in total maximum outstanding borrowing
 - maximum proportion of interest payable on variable rate borrowing.
- ◆ Strategy for refinancing maturing borrowings (if any) and for financing new borrowing requirements over the next two years:
 - proposed sources of finance
 - proposed maturities and maturity structure
 - whether fixed or floating rate (etc) and if floating rate, proposed rollover period
 - suggested mechanisms for controlling interest rate exposure
 - estimated rates of interest
 - effect of proposed borrowings on Albyn's overall security position
 - estimated effect on revenue budget of financial strategy
 - expected maximum total outstanding and short-term borrowing
 - expected maximum proportion of interest payable on variable rate borrowing.
- ◆ In respect of surplus funds:
 - the extent to which surplus funds are earmarked for short term requirements
 - the extent to which surplus funds should be held available to meet contingencies

- the proposed strategy (type of instrument and maturity period) for each of (a) surplus funds embarked for short term requirements or to repay borrowings, (b) surplus funds to be held available to meet contingencies and (c) surplus funds not held against an anticipated requirement
- the revenue effect of the proposed strategy.
- ◆ Changes to the institutions and limits set out in Appendix B of the Treasury Policy Statement.
- ◆ Proposals to be submitted to the Board for amendments to the Treasury Policy Statement.

DEPOSIT AND INVESTMENT LIMITS

Limits

Institution	Up to 1 Month	Up to 1 year	Up to 5 Years
RB S (P-1, A1)	£2,500,000	£2,500,000	£2,500,000
Clydesdale Bank (P-2, Baa1)	£1,000,000	£1,000,000	£1,000,000
Barclays Bank Plc (P-1, A2)	£1,000,000	£1,000,000	£1,000,000
Lloyds Bank Plc (P-1, Aa3)	£1,000,000	£1,000,000	£1,000,000
HSBC Bank Plc (P-1, Aa3)	£1,000,000	£1,000,000	£1,000,000
Svenska Handelsbanken (P-1, Aa2)	£1,000,000	£1,000,000	£1,000,000
Santander UK (P-1, Aa3)	£1,000,000	£1,000,000	£1,000,000
Building Societies (Individually)	£1,000,000	£1,000,000	£1,000,000

The limits set out above may be amended only with the approval of the Board or by the Chair, Vice Chair and Chair of Audit between Board meetings.

The Director of Finance & Corporate Services is responsible for closely monitoring the credit standing of approved counterparties. Where he/she has reason to believe that counterparty's credit standing is or may become impaired he/she should apply lower limits than set out above and advise the Board at its next meeting. The institutional standing will be monitored against the Moody's credit rating for both short and long-term deposits. Short term deposits are for a period less than 1 year.

Minimum ratings levels shall be P-1 (short term) and 'A' (long term) at the time of any deposit decision.

MATTERS TO BE CONSIDERED IN ESTABLISHING INTEREST RATE EXPOSURE POLICY

- ◆ The current level and structure of interest rates.
- ◆ Estimated of future movements in the level and structure of interest rates.
- ◆ The extent to which estimated future movements in interest rates would affect the revenue account and the effect of estimated future movements in interest rates on the revenue account is all borrowings were to be converted to floating rates.
- ◆ The sensitivity of the revenue account to fluctuations in future rates compared with estimate.

APPENDIX D

SCHEME OF DELEGATION FOR TREASURY POLICY

Delegated Power	Exercised by
Approval and amendment of Treasury Policy Statement	Board
Amendments of list of approved institutions and limits	Board
Approval of Annual Financial Strategy	Board
Approval of Treasury Systems Document	Board
Application of approved strategy	Director of Finance & Corporate Services
Treasury dealing with counterparties	Director of Finance & Corporate Services
Authorisation for cash transfers	Director of Finance & Corporate Services
Borrowing and lending documentation	Director of Finance & Corporate Services with Chief Executive
Bank and dealing mandates	Chief Executive, Director of Finance & Corporate Services, Board signatory <i>(in line with mandate requirements)</i>
Authorisation of terms of reference of external managers	Chief Executive and Director of Finance & Corporate Services <i>(both required)</i>

MATTERS TO BE INCLUDED IN REPORTS TO THE BOARD

Quarterly Management Accounts

- ◆ Cash flow via the Balance Sheet compared with budget and commentary on variances.
- ◆ Commentary on treasury operations for the period (as appropriate).

Annual Report of Treasury Management

- ◆ Proposed amendments to the Treasury Policy Statement.
- ◆ Matters in respect of which the Treasury Policy Statement has not been complied with
- ◆ Analysis of currently outstanding borrowings, deposits, and investments by instrument, counterparty, maturity and interest rollover period.
- ◆ Cash flows compared with budget and commentary on variances