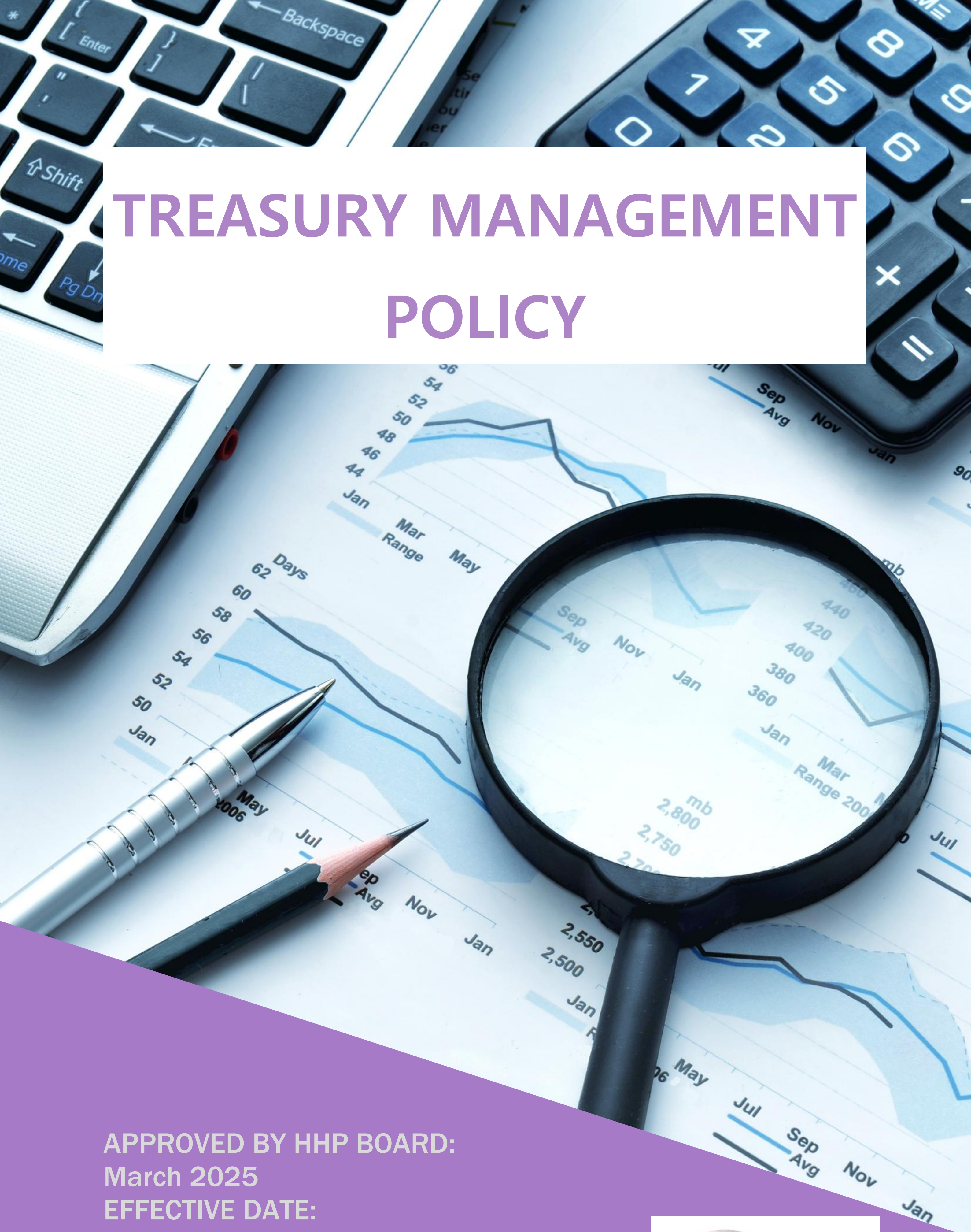

TREASURY MANAGEMENT POLICY

APPROVED BY HHP BOARD:
March 2025
EFFECTIVE DATE:
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BACKGROUND

1.1 For the purposes of this policy, 'Treasury Management' is defined as the management of all money, capital market transactions and interest rate management in connection with cash and funding resources and the control of its associated risks. In practice, treasury management covers three main areas:

- Investment of cash surpluses;
- Core Funding Facility (funding for stock acquisition and improvement including short term borrowing for working capital; funding for new developments/initiatives); and
- Control of interest rate risk with regard to the Partnership's net debt position.

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

1.2 The objectives of this policy are to:

- support the quality and status of treasury management to the organisation;
- provide guidance on the proper practices to be employed for treasury management;
- ensure all investment/funding decisions balance risk and return; and
- detail reporting requirements to ensure the Board receives the appropriate level of information with which to discharge their duties.

1.3 This Treasury Management Policy has been prepared in accordance with the CIPFA Guidance – Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes 2021.

OVERVIEW OF PROCEDURES

2.1 Overview of Procedures:

The Director of Finance and Corporate Services will prepare an 'Annual Financing Strategy which will, subject to any amendments, be approved by the Board. The Director of Finance and Corporate Services will also prepare at the close of the financial year summarising the year's treasury management activities and the year-end positions for all areas detailed in the Annual Financing Strategy.

2.2 The Partnership will not undertake currency risk and accordingly will not borrow or deposit funds held in a foreign currency.

2.3 This policy will be fully reviewed every three years.

ANNUAL FINACING STRATEGY

3.1 The Director of Finance and Corporate Services will prepare for the approval of the Board an annual 30 year financial projection. In preparing the 30 year financial projections the Director of Finance and Corporate Services will have sufficient and appropriate facilities available to cover the following:

- its long term borrowing requirements;
- its planned short term borrowing requirements;

- funding needs arising from the timing and amount of cash flows; and
- funding in place to deliver our business plan commitments.

3.2 The Director of Finance and Corporate Services should also have regard to the current levels of short term and long-term interest rates and to the market expectations of future changes in interest rates. The Director of Finance and Corporate Services will be aware of the sensitivity of the business model to changes in these rates. The maximum proportion of variable interest loans to fixed/hedged loans is set at 50% as outlined in Appendix C. More detailed guidance on the matter to be included in the Annual Financing Strategy is set out in Appendix A.

3.3 Based on the annual forecasts, the Director of Finance and Corporate Services will prepare monthly rolling forecasts of short-term surplus cash and borrowings for the purpose of applying the strategy on a day-to-day basis and for the reporting of results of the approved strategy to the Board.

3.4 External support will be provided by a Treasury Management Advisor.

INVESTMENT OF CASH SURPLUS

4.1 All investment monies in the possession of the Partnership shall be aggregated for the purposes of treasury management.

4.2 The Director of Finance and Corporate Services is responsible for all executive decisions in furtherance of the Annual Financial Strategy. Investment transactions require the counter signature of either the Chief Executive or Director of Operations. All investment decisions will be reported to the Board through the Quarterly Treasury update.

4.3 Security of the Partnership's funds is a high priority. Investment limits for each organisation will depend on their financial strength. Investment organisations will be selected based on a minimum credit rating as follows:

Rating Agency	Minimum Credit Rating
S&P	A
Moody's	A2
Fitch	A

4.4 When selecting investment organisations a benchmarking process will be used to ensure investment rates are market competitive.

4.5 The Director of Finance and Corporate Services has delegated powers to carry out the Partnership's strategy for depositing surplus funds and managing the cash flow of the organisation. In exercising these powers due regard must be given to the:

- perceived credit risk associated with the institutions with which funds may be deposited or invested;
- effect of possible changes in interest rates on the cost of borrowing; and
- return from investing and the need to maintain liquid funds to meet the Partnership's obligations.

The measure of creditworthiness used will be that deemed appropriate by the Director of Finance and Corporate Services, using recognised rating agency information, and approved by the Board.

4.6 In an effort to further reduce risk funds should be spread according to the following categories:

- £0M – £1.5M – maintained on the current account for ease of access
- £1.5M - £3M – no fewer than two interest bearing accounts including the current account for ease of access
- £3M - £4.5M – no fewer than three interest bearing accounts including the current account for ease of access
- £4.5M - £6M – no fewer than four interest bearing accounts including the current account for ease of access.
- £6M - £7.5M – no fewer than five interest bearing accounts including the current account for ease of access.

4.7 The Board will receive quarterly reports providing an update on treasury performance. This will include how we have performed against initial cashflow forecasts. Any excess funds to be placed on deposit will be identified, and how long these amounts will be available for investment.

CAPITAL FUNDING

5.1 Borrowings for the Core Funding Facility will be to fund the purchase and investment programme, additional ongoing finance requirements and funding for new developments and initiatives. Risk management considerations and therefore hedging decisions will be based on the aggregation of amounts received from external funders.

5.2 ***Core Funding Facility*** - The Partnership's core funding is obtained through a competitive tendering exercise. This funding may be received from a single funder and/or form part of a syndicated funding arrangement with a lead arranger. Drawdowns, repayments and risk management considerations for this facility should form part of the 'Annual Financing Strategy'. The Director of Finance and Corporate Services will have the primary responsibility for the day to day management of the relationship between the Partnership and lead funder. The Board will also have the opportunity to meet and discuss and changes to the funding facility with the lead funder.

5.3 Monitoring and compliance with covenants and information requirements in relation to this facility is crucial and systems and ledgers should be designed to make information readily available.

5.4 The 'Annual Financing Strategy' will confirm whether the core funding facility should be subject to review and should recommend whether refinancing be considered. The review should take into account the efficiency of the borrowing in terms of covenants and any restrictions they impose as well as the margin rates relative to current market conditions.

5.5 A lender may be removed where their terms and covenants are not acceptable to the Partnership. Any review of limits or removal will be covered in the 'Annual Financing Strategy'.

INTEREST RATE EXPOSURE

6.1 The Director of Finance and Corporate Services is responsible for monitoring the Partnership's interest rate exposure and for determining the interest rate exposure policy within the limits set by the 'Annual Financing Strategy'.

6.2 The principal factor governing the exposure of surplus funds to interest rate movements is the Partnership's cashflow forecasts. Where surplus funds are required to meet possible cash outflows in the near future they will be deposited for short periods that will ensure the funds are available when required. Where surplus funds are expected to be available for investment for longer periods the 'Annual Financing Strategy' will give guidance on the interest rate exposure policy. Where surplus funds are to be used to repay borrowing on maturity, the maturity for which funds are deposited should match as closely as possible the maturity of the related borrowings.

6.3 The 30 year Business Plan and cashflow forecasts will be reviewed within the context of the current private finance facility on a regular basis.

6.4 Appendix C set out the guidance on policy governing the exposure of borrowings to interest rate movements the outcome of which covered in the 'Annual Financing Strategy'. Appendix B discusses the hedging instruments currently approved by The Scottish Housing Regulator that may be used by the Partnership to manage interest rate risk.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REQUIREMENTS (ESG)

7.1 We will adopt sustainable investment strategies that align with our broader ESG goals outlined in our ESG Strategy. This will include seeking grant funding through Net Zero & Social funding opportunities.

7.2 To measure our ESG performance we will use the Sustainability Reporting Standard for Social Housing (SRS) by Sustainability for Housing and The Good Economy as best practise.

REVIEW REQUIREMENTS

8.1 The Board will receive a monitoring statement of treasury management activities on a quarterly basis. The statement will take the format as described in Appendix D.

8.2 Training – The Director of Finance and Corporate Services will commit to ensuring all Board Members receive appropriate training in understanding general Treasury Management and so ensure decision making is made with a full understanding of the implications for the Partnership's financial position.

APPENDIX A – MATTERS TO BE INCLUDED IN THE ANNUAL FINANCING STRATEGY

1) Forecast cash flows for the next financial year.
2) Details of principal borrowing maturities over the next three financial years.
3) Maturity profile of existing borrowings.
4) Analysis of present levels of short and long term interest rates, comparison with historical trends and estimated trend movements in interest rates over the next financial year.
5) Sensitivity of business model to changes in these rates.
6) Proposals for information and approval:
    - Total outstanding borrowing
    - Maximum short-term borrowing (if any) included in total maximum outstanding borrowing
    - Maximum proportion of loan interest payable on variable rate borrowing
7) Strategy for refinancing maturing borrowings (if any) and for financing new borrowing requirements over the next three years and/or refinancing existing borrowings to take advantage of more favourable market conditions.
    - Proposed sources of finance
    - Proposed maturities and maturity structure
    - Whether fixed or floating rate (etc) and if floating rate, proposed rollover periods
    - Suggested mechanisms for controlling interest rate exposure
    - Estimated rates of interest
    - Effect of proposed borrowings on the partnership's overall security position
    - Proposed new maturity ladder
    - Estimated effect on revenue budget of finance strategy
    - Expected maximum total outstanding and short-term borrowing
    - Expected maximum proportion of interest payable on variable rate borrowing
8) In respect of surplus funds:
    - The extent to which surplus funds are earmarked for short term requirements or to repay maturing borrowings
    - 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 earmarked for the 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

9) Changes to the credit rating of institutions where the partnership have funds deposited or borrowing arrangement in place.

APPENDIX B – APPROVED METHODS OF RAISING CAPITAL FINANCE

Conventional Loans

The most commonly used method, including

- Borrowing at a variable rate generally linked to the base rate, mortgage rate or SONIA, or
- Borrowing at a fixed rate for a defined period.

In each case, repayment of a proportion of principal sum borrowed is made each year in addition to any interest charge. The Partnership may consider use of the following principal payment where there are demonstrable advantages in terms of balancing the portfolio:

- **Capital Holidays** – where the principal repayments normally due in one or more years during the life of the loan are deferred to a later date.
- **Bullet Repayments** – where the entire principal amount is paid at the end of the life of the loan, with only the annual interest payments payable during the term.

Interest payments can also be linked to other indexes eg. RPI

Deferred Funding

Deferred funding (alternatively called 'low start financing') may be used where this would give greater balance to the portfolio of capital finance. The interest rate is low for a defined initial period, and increases thereafter. It is generally more expensive than conventional funding over the lifetime of the loan and consideration must be given to the termination penalties attached to such structures.

Bond Issue

The Partnership can participate with other Partnerships/Institutions in raising finance via the issue of a bond on the capital markets.

Other Instruments

The following derivative instruments are permitted:

- **Interest Rate Caps and Collars** – where, for the payment of a premium, upper and lower limits can be set on variable interest rates.
- **Interest Rate SWAPs** – where one type of borrowing can be exchanged for another (e,g, variable rate loans exchanged for fixed rate or vice versa) on a temporary basis.

If incorporated into a loan agreement they do not require any alteration to the Partnership's rules but if taken as a 'stand alone' they will require an amendment.

The Partnership can consider the use of other instruments where it can be clearly demonstrated that their advantages and risk control characteristics are favourable to the Partnership's position. Any decision in this regard will be taken with the full consultation of The Scottish Housing Regulator.

Given the lack of transparency in the pricing of these instruments, the Partnership will also undertake to benchmark the cost of these instruments to the underlying market rate and provide an audit trail of decision making.

APPENDIX C – MATTERS TO BE CONSIDERED IN ESTABLISHING INTEREST RATE EXPOSURE

1) The current level and structure of interest rates.
2) Current interest rates compared with the historical trend.
3) Market expectations of future movements in the level and structure of interest rates.
4) The maturity profile of any fixed rates which may be entered into. The objective being to manage interest rate exposure to the Partnership by ensuring rate exposure does not increase rapidly.
5) The extent to which potential future movements in interest rates would affect the 30 year financial projections and the effect of potential future movements in interest rates on the revenue account if all borrowings were to be converted to floating rates.
6) The sensitivity of the 30 year financial projections to fluctuations in future interest rates.
7) The Partnership will ensure at least 50% of net debt is to be hedged (either through entering into fixed rates or using another acceptable instrument) at any one time and so a maximum of 50% of forecast net debt exposed to the risk of rising interest rates.
8) The absolute minimum percentage of net debt to be hedged is 50% but the target hedging level will be set out in the annual financing strategy.

APPENDIX D – ANALYSIS OF INVESTMENTS AND BORROWING PRO FORMA

Investments

	As at 1 April (£000s)	**As at 30 June (£000s)**	**Average (£000s)**
Cash Holdings			
Invested at:			
• Royal Bank of Scotland			
• Santander			
• Other Funders….			
Required number of holdings			
Actual number of holdings			

Borrowings

Core Funding Facility

£M

- Estimated debt outstanding (per Annual Financing Strategy) [x]
- Actual amount outstanding [x]
- Difference [x]

Compliance with Cash flow Forecasts

- Is the Partnership complying with the Annual Financing Strategy Projections?
- Identify any non compliance?

Loan Covenants

- Is the Partnership's complying with all loan covenants?
- Identify any non compliance?

Borrowings	As at 1 April (£000s)	As at 30 June (£000s)	Average (£000s)
Loans outstanding (including bond issues)			
Variable / Fixed:			
▪ Variable – amount			
▪ Fixed – amount ▪ Other hedged products - amount			
Variable - %			
Fixed - % Other hedged products			
Lenders – amounts:			
▪ Core Facility ▪ Additional Funding			
▪ Royal Bank of Scotland			
(Excluding Core facility):			
▪ Royal Bank of Scotland			

INTERPRETATIONS & ABBREVIATIONS

The following interpretation and abbreviations are used in this policy:

WORD	INTERPRETATION
HHP or Partnership	Hebridean Housing Partnership
Board	The Board of the Hebridean Housing Partnership
Board Members	All Members of the Board including co-opted Members
CIPFA	Chartered Institute of Public Finance Accountants
SONIA	Sterling Over-Night Index Average
All references to the masculine gender in this policy shall read as equally applicable to the feminine gender	