



## **Langstane Housing Association Limited**

### **Treasury Management Policy**

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<b>Board of Management / Committee name</b>	Board of Management
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Version	Date approved	Changes
V1	2019	Full rewrite
V2	2020	3.3.4 Proportion of total debt to be protected – additional comment Reference changed from Annual Treasury Plan to Funding Strategy Minor updates in reference to CIPFA Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes
V3	15/02/2021	Minor changes to reflect the introduction of SONIA (to replace LIBOR) in last 2021.
V4	16/02/2022	Proposal to review policy every 3 years. 3.3.5 Change from LIBOR to Sonia 3.5.9 Retention of the £2m limit on deposit accounts 8.2 Removal of option for the Funding Strategy to be presented to Board for approval after the financial year end.

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## 1. Introduction

- 1.1. This document sets out the Treasury Management Policy Statement of Langstane Housing Association (“Langstane”), together with the Treasury Management Practices and Procedures it adopts and operates.
- 1.2. Langstane recognises the organisation is exposed to risk from a wide range of factors, and these risks can impact on the achievement of Langstane’s business objectives. Langstane undertakes risk mapping to identify and quantify these risks, and has established and maintains systems and procedures to manage, monitor and limit the impact of all such risks.
- 1.3. Also, Langstane recognises that treasury management activities themselves, including cash flow management, borrowing, investing and hedging can potentially expose the organisation to specific risks that require close attention and careful management.
- 1.4. To this end, Langstane has established, and maintains, specific treasury policies and practices, which are set out in the following Treasury Management Policy and Practices document.
- 1.5. The policies referred to within this document are derived from the latest CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised December 2017).
- 1.6. Langstane also recognises the Scottish Housing Regulator expects registered social landlords (RSLs) to comply with the CIPFA Treasury Management Code as contained in the Recommended Practice publication dated August 2015.
- 1.7. Langstane acknowledges the three Key Principles as set out in section 4 of the Code, specifically:

### **Key Principle 1**

Public Service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

### **Key Principle 2**

Their policies and practices should make clear the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

### Key Principle 3

They should acknowledge the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

#### Treasury management policy statement

CIPFA recommends that all public service organisations (including Registered Social Landlords) adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following core statements relating to treasury management:

The organisation will create and maintain as the cornerstones for effective treasury management:

- a treasury management policy statement, (this document), stating the policies, objectives and approach to risk management of its treasury management activities; and
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the – Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2017 (the “Code”), subject only to amendment where necessary to reflect the particular circumstances of the organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles which are as follows:

- Langstane’s Board of Management will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual funding strategy in advance of the financial year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- Langstane’s Board of Management has overall responsibility for treasury management. In accordance with Langstane’s underlying terms of reference the Board of Management delegates responsibilities to the Director of Finance and Corporate Services. Specific responsibilities are contained within TMP 5. Langstane’s Board of Management is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

This document sets out the TMPs of Langstane, which has adopted the key recommendations of the Code as described in Section 4 of that Code.

Langstane defines its treasury management activities as **“The management of Langstane’s borrowing, 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.”**

Langstane 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.

Langstane 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.

## 2. TMP 1 – Risk management

### 2.1. General Statement

- 2.1.1. The Director of Finance and Corporate Services will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least quarterly on the adequacy and suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving Langstane's objectives in this respect, all in accordance with the procedures set out in TMP6 "Reporting requirements and management information arrangements".

### 2.2. Liquidity risk management

- 2.2.1. Langstane will ensure it has adequate though not excessive cash resource, 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. Langstane 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.
- 2.2.2. The Funding Strategy (see TMP6 "Reporting Requirements") will contain a proposed liquidity maintenance requirement for the following financial year, subject to the overriding requirement that Langstane's available liquidity must not, at any time, fall below the levels specified below.

#### Short Term Funds

- A target minimum of £1.5m to be held at all times.
- If funds fall below the target £1.5m and remain above £1.0m, the Board of Management to be advised of the position along with recommended actions to restore funds to the minimum target of £1.5m. The balance will be restored to the target minimum of £1.5m within a maximum period of one month.
- If funds fall below £1.0m at any time then this will be a breach of this policy and as such a notifiable event to the Scottish Housing Regulator who will be advised as soon as possible.

Short term funds are defined as the aggregate of:

- Cash balances;
- Deposits on an instant access basis or with a maximum deposit maturity of up to one month.

#### Medium Term Funds

- A target minimum of £3.0m to be held at all times to include the Short Term Funds (£1.5m);
- Undrawn committed borrowing facilities where security has been put in place to the lender's satisfaction and which are available to be drawn within a maximum of one month. Langstane has a committed Revolving Credit Facility of £25m which is fully secured and available to be drawn down up to 3

months prior to the final repayment date (10/2023). Funds can be drawn down for any (lawful) purpose subject to completing a drawdown request not later than 12.00 noon two business days before any proposed drawdown date.

**Medium Term Funds** are defined as the aggregate of:

- Short Term funds;
- Cash balances with a deposit maturity / notice period of one to three months; and
- Undrawn committed borrowing facilities where security has been nominated and which can be charged to the lender's satisfaction so as to make the facility available for drawdown within three months.

	Short term	Medium term
<b>Target</b>	£1.5 million	£3.0 million
<b>Notifiable to Board of Management</b>	< £1.5 million	< £3.0 million
<b>Breach of Policy – Notifiable to Scottish Housing Regulator</b>	< £1.0 million	< £2.5 million
<b>Aggregate of</b>	Cash balances Deposits on instant access with access no later than one month	Short term funds Cash balances with a deposit maturity period of one to three months Undrawn committed borrowing facilities, where security nominated and can be charged to the lender's satisfaction and drawn down within three months

### 2.3. Interest rate and inflation risk management

- 2.3.1. The Director of Finance and Corporate Services is responsible for monitoring Langstane's interest rate risk exposures and for determining an appropriate strategy for the management thereof within the guidelines and policies established in this Treasury Management Policy and the annual Funding Strategy (see TMP6 "Reporting Requirements").



- 2.3.2. In managing Langstane's interest rate and inflation risk the Director of Finance and Corporate Services will pay due regard to:
- current levels of interest rates and inflation compared with historic trends;
  - anticipated future trend movements;
  - the impact on revenue of estimated movements in interest rate and inflation trends;
  - sensitivity of the revenue account to movement in interest rates and inflation; and
  - policy and / or budgetary implications.
- 2.3.3. The organisation may enter into loan arrangements that incorporate interest rate swaps, caps, collars and / or other hedging arrangements that allow interest rate risk to be managed without the need for any separate hedging instrument to be transacted (so called "embedded" arrangements).
- 2.3.4. The organisation is risk averse and will endeavour to ensure that its borrowings contain a mix of hedged and variable interest rates. The optimum mix will be determined in the annual Funding Strategy according to operating circumstances and through sensitivity analysis of anticipated cash flows, but within the following general guidelines (expressed as a percentage of total debt outstanding which Langstane aims to have in place by end of 2023):

<b>Proportion of total debt to be protected</b>	<b>Min</b>	<b>Max</b>
Hedged debt	70%	100%
Unhedged debt	0%	30%

- 2.3.5. Unhedged debt includes borrowing linked to SONIA (or any determined replacement Bank Base Rate, Building Societies' Base Rate, and borrowings linked to any index (e.g. the Retail Price Index). Hedged Debt includes borrowing in relation to which the interest rate has been fixed in excess of 12 months (note that when a fixed rate loan has 6 months or less to its maturity or cancellation option exercise date it will be treated as variable).
- 2.3.6. For the purposes of monitoring compliance with hedged / unhedged policy requirements (paragraph 3.3.4), forward starting hedges will be included in the hedging portfolio from the date on which they take effect. Care must be taken when formulating the Funding Strategy and executing hedging transactions to ensure the impact of forward starting arrangements will not cause hedging limits to be breached when they take effect.
- 2.3.7. The organisation recognises the risk arising from maturing fixed interest rates and the resulting potential exposure to volatility in the interest rate market ("re-set risk"). Accordingly, the organisation will seek to manage interest rate re-set risk management strategy within the following general parameters, subject to operational requirements:

### **Hedged debt re-set risk parameters**

- Max % of total hedged debt due for re-set in any one year 20% to exclude any capital markets issues which have been structured on a bullet repayment basis.
- Max % variable rate debt maturing (rollover) on any date 25%.

2.3.8. The principal factor governing Langstane's management of interest rate and inflation risk on surplus funds will be liquidity requirements. Surplus funds needed to meet cash flow requirements will necessarily be placed on short term deposit.

2.3.9. Subject to maintaining liquidity, either in the form of cash or undrawn committed and available borrowing facilities, where possible and subject to specific operating requirements, Langstane will seek to minimise borrowing rather than invest surplus funds when the net cost of borrowing exceeds the return achievable by investing surplus funds.

### **2.4. Exchange rate risk management**

2.4.1. Langstane will not expose its cash flows to exchange rate risk and consequently will not borrow using structures which require the payment of principal or interest in currencies other than sterling. Neither will it invest in instruments which pay interest or return capital in currencies other than sterling.

### **2.5. Credit and counterparty risk management**

2.5.1. Langstane may only invest with / lend to institutions regulated by the Prudential Regulation Authority (or the appropriate supervisory body in the European Economic Area in which they are incorporated or formed). It is permitted to invest with / lend to subsidiaries of rated institutions provided the subsidiary itself has an acceptable credit rating or where the organisation can be satisfied the parent institution (which has an acceptable credit rating) is unconditionally obliged to stand behind the obligations of its subsidiary.

2.5.2. Langstane will use Short-Term credit ratings issued by Fitch Ratings Ltd ("FRL"), Moody's Investor's Service ("Moody's") and Standard & Poor's ("S&P") to monitor the creditworthiness of the Banks and Building Societies with which it invests or with which it proposes to invest. For the purposes of this policy, Langstane may invest with Banks and Building Societies which have an average Short-Term credit rating across the three rating agencies of at least "F1" as issued by FRL. The equivalent Short-Term credit ratings issued by Moody's and S&P are "P-1" and "A-1" respectively.

2.5.3. Short-Term ratings have a time horizon of less than 13 months for most obligations and thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner. The following table provides an example of the short-term credit ratings used by Fitch Ratings:

<p><b>F1</b> Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.</p>	<p><b>F2</b> Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.</p>
<p><b>F3</b> Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non-investment grade.</p>	<p><b>B</b> Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.</p>
<p><b>C</b> High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.</p>	<p><b>D</b> Indicates an entity or sovereign that has defaulted on all of its financial obligations.</p>

- 2.5.4. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.
- 2.5.5. Langstane may lend to any building society complying with the credit rating criteria or with net assets in excess of £1bn, or where specific prior approval has been obtained from the Board of Management.
- 2.5.6. It is permitted to invest with / lend to subsidiaries of rated institutions provided the subsidiary itself has an acceptable credit rating or where the organisation can be satisfied the parent institution (which has an acceptable credit rating) is unconditionally obliged to stand behind the obligations of its subsidiary.
- 2.5.7. As a general rule, the organisation will only invest surplus funds with UK domiciled institutions and preference will be given to institutions which lend to the organisation in order to be able to take advantage of the right of set-off.
- 2.5.8. The Director of Finance and Corporate Services is responsible for monitoring the credit standing of all approved investment institutions and for identifying and using appropriate external information services. In the event of an approved investment institution being downgraded below

Langstane's minimum credit criteria, invested funds will be removed upon maturity. Funds invested will also be subject to the following sector limits:

Sector	Max % of funds
UK Banks and / or subsidiaries	100
UK Building societies	50
UK Government	100
Local Authorities	50
Money Market Funds	50

**Note:** Exposure to banking groups will be aggregated for the purposes of calculating compliance with sector limits

- 2.5.9. Where surplus funds are required to meet possible cash outflows in the near future they must be deposited for periods that will ensure funds are available when required. Where funds are to be used to repay borrowings on maturity, deposit maturities should match the maturity of those borrowings as closely as possible.
- 2.5.10. The maximum amount invested at any time with an approved investment institution may not exceed £2m and have a maturity not exceeding one to three months depending on whether short or medium funds. The only exceptions to these limits will be Langstane's clearing bankers with whom deposits in excess of this amount may be made for up to 14 days from the date of unexpected funds and for sinking funds or funds held in escrow by direction of a lender pending completion of security arrangements. Whilst special Board of Management approval can be sought for a longer investment period such approval will only be given once independent professional advice has been received
- 2.5.11. Investment may be made direct with an approved investment institution or via any regulated money broker. The Director of Finance and Corporate Services shall be responsible for ensuring that any brokers used are made and kept fully aware of Langstane's minimum counterparty criteria and limits.
- 2.5.12. Where funds are held on behalf of the organisation by third parties (such as sinking fund trustees) The Director of Finance and Corporate Services shall be responsible for ensuring that such third parties are made and kept fully aware of Langstane's minimum counterparty criteria and that any departure therefrom shall be subject to specific Board of Management approval.
- 2.5.13. Where cash has been raised from the proceeds of a capital markets issue or similar funding mechanism and is required to be placed on deposit with trustees as cash collateral pending completion of security charging, Langstane's minimum credit rating criteria for investment counterparties will continue to apply and must be advised in writing to the relevant trustee. However, the individual institution investment limit specified in paragraph

3.5.9 may be varied by the Board of Management as a temporary measure to accommodate such cash collateral arrangements in addition to day to day investment activities subject to quarterly reporting and re-authorisation.

- 2.5.14. Where cash has been raised from the proceeds of a capital markets issue or similar funding mechanism and cannot be utilised immediately a specific investment strategy for such funds must be approved by the Board of Management. The approval must set out variations to individual counterparty limits, minimum credit rating criteria and any other elements of this treasury management policy and will be subject to quarterly reporting and re-authorisation.
- 2.5.15. The organisation is permitted to invest in Sterling money market funds to provide investment diversification for short-term funds. Investment is only permitted in money market funds that have a rating of 'AAA', and that have a minimum investment rating criteria of A-1. It is recognised there is a risk of falling capital values with this type of investment and therefore the maximum aggregate invested at any time in money market funds may not exceed £2 million. Any such investment requires specific authorisation by the Board of Management and will be subject to quarterly performance reporting to the Board of Management detailing, inter-alia, capital value. Investment in any such funds will only be approved following appropriate professional advice.
- 2.5.16. It is Langstane's policy to borrow from as wide a range of sources as possible and as may be appropriate. In general terms, the organisation will seek at all times to have committed available facilities in place sufficient to meet its contractually committed capital programme for a minimum of two financial years. Where borrowings are to be included in the calculations of liquidity (as set out in section 3.2 "Liquidity Risk Management") the lender must have a minimum credit rating equivalent to those set out 3.5.2 or be subject to specific approval by the Board of Management. Langstane will also consider borrowing from the capital markets either directly, via issuing vehicles or via intermediaries such as The Housing Finance Corporation or GB Social Housing.

## 2.6. Legal and regulatory risk management

- 2.6.1. Langstane 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.
- 2.6.2. Langstane 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.

## 2.7. Fraud, error and corruption, and contingency management

2.7.1. Langstane will ensure that it has identified the circumstances that 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.

## 2.8. Price risk management

2.8.1. Langstane 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 it from the effects of such fluctuations.

## 2.9. Refinancing risk management

2.9.1. Langstane 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 Langstane as can reasonably be achieved in the light of market conditions prevailing at the time.

2.9.2. 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.

## 2.10. Non-treasury investment risk

2.10.1. Langstane recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

2.10.2. Langstane will ensure that all Langstane's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, Langstane's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised the risk appetite for these activities may differ from that for treasury management.

2.10.3. Langstane will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and Langstane's risk exposure.

### **3. TMP 2 – Best value and performance management**

- 3.1. Langstane is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim.
- 3.2. Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of Langstane'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.

## **4. TMP 3 – Decision making and analysis**

### **4.1. Record keeping**

- 4.1.1. Langstane will maintain full records of its treasury management decisions, and of the processes and procedures 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 considered at the time.
- 4.1.2. The scheme of delegated authority is set out in TMP 5.

### **4.2. Borrowing where a loan has already been approved by the Board of Management**

- 4.2.1. Delegated authority to borrow funds is placed with the Director of Finance and Corporate Services in conjunction with the Chief Executive. The amount of borrowings required will be dictated by business cash flow requirements and proposed development expenditure (if any). The exact amount of borrowings required will vary from time to time but will be at least sufficient to meet all liquidity requirements as outlined in this Policy.
- 4.2.2. The procedure to follow when drawing down loans is set out in Langstane's treasury procedure documents.

### **4.3. Investing**

- 4.3.1. Responsibility for controlling investments rests with the Director of Finance and Corporate Services. The value of investments will be dictated by business cash flow requirements and proposed development expenditure. The exact amount of investments will vary from time to time and will be kept available to meet all liquidity requirements as outlined in this Policy.
- 4.3.2. When significant funds (typically in excess of £2m) are available to invest the Director of Finance and Corporate Services will approach at least two preferred institutions to establish the best possible terms available. The funds will then be invested in accordance with the terms of this Policy and Langstane's standing orders / treasury procedures at the best rates available.
- 4.3.3. All investment transactions must be documented, and the following information recorded:
  - Amount;
  - Investment period;
  - Counterparty;
  - Interest rate;
  - Price / yield / coupon & issue details as appropriate;
  - Dealing date;
  - Payment date;
  - Maturity date;
  - Transmission arrangements;
  - Justification of the deal;



- A unique deal number;
  - Broker's name (if applicable);
  - Transaction type; and
  - Name and signature of person executing the deal.
- 4.3.4. Deal tickets will be evidenced as being authorised and must always be accompanied by confirmation letters / emails exchanged by Langstane, counterparties and brokers.
- 4.3.5. Where possible, all investments will be transferred via CHAPS arrangements and be made in accordance with standing rules for operation of this service.
- 4.3.6. Deal tickets will be evidenced as being authorised and must always be accompanied by confirmation letters / emails exchanged by the organisation, counterparties and brokers.

## **5. TMP 4 - Approved methods, instruments and techniques**

5.1. Langstane will undertake its treasury management activities by employing only those instruments, methods, and techniques detailed in this TMP.

### **5.2. Capital finance (new borrowing)**

5.2.1. The Director of Finance and Corporate Services in conjunction with the Chief Executive is responsible for and undertakes all borrowing activities on behalf of the organisation. No new commitment to borrow funds may be entered into without the specific approval of the Board of Management.

5.2.2. In the case of all proposed new borrowing, the Director of Finance and Corporate Services will prepare a report to the Board of Management containing the following minimum information:

- the name(s) of the proposed lender(s) with a brief description of their experience, understanding of the social housing market and perceived market standing;
- where applicable, the proposed lender(s) credit ratings;
- details of the interest bases permitted under the proposed facility;
- the basis and level of the lender's interest rate margin;
- details of arrangement and other fees, legal costs, valuation fees etc.;
- details of financial covenant requirements and any other restrictive undertakings required together with an assessment Langstane's ability to comply therewith;
- details of security arrangements;
- comparison with other offers and a cost benefit analysis;
- compliance with Langstane's borrowing strategy and policy;
- arrangements for drawings funds;
- details of any independent financial, legal or other advice received; and
- any other matters that will assist the Board of Management in arriving at its decision, with particular attention to highlighting the relevant risks.

### **5.3. Terms & conditions of capital finance**

5.3.1. It is the responsibility of the Director of Finance and Corporate Services to ensure that all new borrowing is effected on the most competitive terms possible and available in the markets. Langstane will endeavour to ensure that any financial covenants entered into with any lender are consistent with those for existing borrowing arrangements where they remain in place and are in line with the market at the time of arranging.

5.3.2. Langstane will seek to maintain minimum levels of covenant compliance in excess of the levels imposed by loan agreements at all times. Anticipated levels of compliance and internally set compliance targets will form an integral element of the Funding Strategy.

## **5.4. Collateral (security)**

- 5.4.1. It is Langstane's general policy to maintain the minimum level of asset cover required by lenders. At the same time, the organisation will endeavour to ensure that borrowing arrangements permit maximum flexibility to release and substitute collateral assets and to grant floating charges only as a short-term measure pending the completion of fixed charge security.

## **5.5. Investment**

- 5.5.1. Subject to the limits and credit criteria specified in the standing orders, the organisation may invest surplus funds in the following approved instruments:
- Short / fixed term money market deposits;
  - Certificates of deposit issued by authorised institutions;
  - Treasury Bills;
  - Government Gilts.
- 5.5.2. Funds may not be invested in any medium where capital value may be subject to loss without the approval of the Board.

## **5.6. Derivative instruments**

- 5.6.1. Where Langstane intends to use derivative instruments for the management of risks, these will be limited to those set out in Langstane's Funding Strategy and provided for within the rules of Langstane. Langstane will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

## **5.7. MIFID II**

- 5.7.1. Langstane has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

## 6. TMP 5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements

- 6.1. Langstane considers the effective control and monitoring of its treasury management activities essential, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, these activities are structured and managed in a fully integrated manner, and there is at all times clarity of treasury management responsibilities.
- 6.2. 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.
- 6.3. If and when Langstane intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance and Corporate Services will ensure the reasons are properly reported in accordance with TMP6 - "Reporting", and the implications properly considered and evaluated.
- 6.4. The Director of Finance and Corporate Services will ensure there are clear written statements of the responsibilities for each post engaged in treasury management, and arrangements for absence cover.
- 6.5. The Director of Finance and Corporate Services will ensure at all times those engaged in treasury management follow the policies and procedures set out.
- 6.6. Langstane's scheme of delegated authority relating to treasury management is as follows:

### **Authority retained by Langstane's Board of Management:**

- Approval of key policies, procedures and delegation of authority.
- Approval of the Business Plan.
- Approval of the Funding Strategy as recommended by the Director of Finance and Corporate Services.
- Review of the Annual Treasury Report, the contents of which are described in TMP6.

### **Authority delegated to the Director of Finance and Corporate Services in conjunction with the Chief Executive:**

- Implementation of the Funding Strategy (including proposals for controlling interest rate risk).
- Delivery of the Annual Treasury Report to the Board of Management.
- Supervision of the treasury function.
- Authorisation of investments entered into pursuant to TMP1.

## 7. TMP 6 – Reporting requirements and management information requirements

### 7.1. Funding Strategy

7.2. The Director of Finance and Corporate Services will prepare for the Board of Management meeting preceding the year end, a Funding Strategy for approval. This will set out Langstane's aims and objectives as they apply to treasury management for the following financial year. A semi-annual "progress report" of the Funding Strategy will be agreed by the Board of Management and shall contain financial and other relevant data to include:

- Forecast cash flows for the following financial year and no less than the succeeding two years.
- Details of borrowing maturities over the next three financial years.
- A maturity ladder detailing all fixed interest rate borrowing.
- Analysis of current prevailing short and long term interest rates, comparison with historical trends and estimated trend movements over the next financial year. This data will be supported with externally gathered expert opinion.
- A report on current outstanding borrowing, including short term debt and a statement of the proportion of fixed, variable and index linked interest rates.
- A statement of borrowing requirements for the next financial year together with a strategy for funding this requirement.
- A statement of anticipated cash surpluses and the strategy to be adopted for investment thereof during the next financial year.
- A recommendation as to the mix of fixed, variable and index linked interest rates to apply to each subsidiary within Langstane's debt portfolio at the end of the next financial year.

7.2.1. In preparing the Funding Strategy the Director of Finance and Corporate Services, will pay regard to the following:

- Maintenance of a stable financial condition;
- Ensuring that Langstane has sufficient cash resources available to meet both its long term and planned short term needs; and
- Ensuring that Langstane has sufficient cash resources available at all times to meet funding needs arising from uncertainties in the business planning process, the timing and amount of cash flow.

7.2.2. The Funding Strategy will also detail Langstane's strategy for refinancing maturing borrowing (if any) changing the mix of fixed, index linked and variable interest rates and for financing new borrowing requirements over the next three years. The Funding Strategy must include:

- sources of finance;
- proposed maturities and maturity structure;
- Mechanisms available for controlling and managing interest rate risk exposure including fixed, variable, index linked interest;
- anticipated interest rate levels;
- a statement of unencumbered assets available to support borrowing and a statement of the effect of any proposed new borrowing; and
- a forecast of the impact of the proposed strategy on financial covenants.

- 7.2.3. The Funding Strategy will detail Langstane's strategy for investing surplus funds and include, on an aggregated basis:
- A forecast of funds required to repay maturing debt or for other cash flow requirements;
  - A forecast of surplus funds available to meet contingencies;
  - An investment strategy, including proposed instruments and maturities, designed to maximise returns and also ensure sufficient liquidity to meet forecast requirements.
  - A forecast of the impact of the proposed strategy on any applicable borrowing terms and conditions.
- 7.2.4. The Funding Strategy will also set out any proposals for amendments to the Treasury Management Policy Statement or TMPs.

### **7.3. Annual Treasury Report**

- 7.3.1. The Director of Finance and Corporate Services will submit an annual Treasury Report to the Board of Management meeting following the end of each financial year and in any case, no later than three months after the end of the financial year. The annual Treasury Report will cover the whole of the financial year's activities of the treasury operation and include final annual measures of performances. The overriding objective of the annual Treasury Report is to form a stand-alone document that provides a full picture of treasury activities, plans, policies and results, independent of other reporting during the year. The annual Treasury Report will incorporate the following specific information:
- a statement of the proportion of debt that is hedged including a maturity ladder detailing all fixed interest rate borrowing and interest periods within variable rate borrowing;
  - an overall summary of treasury operations for the year;
  - an analysis of actual cash flow compared with budgeted levels and commentary on variations (both positive and negative); and
  - a report analysing compliance with permitted borrowings and prevailing regulations, including:
    - total borrowings outstanding;
    - total short term borrowings;
    - financial covenant compliance;
    - confirmation that total permitted borrowing has not been exceeded; and
    - matters where the TMPs have not been complied with (if any).
- 7.3.2. As part of the annual review of treasury the Director of Finance and Corporate Services will also review this treasury policy to ensure it is fit for purpose and advise of any required amendments.

### **7.4. Semi-annual Treasury Report**

- 7.4.1. The Director of Finance and Corporate Services will submit a mid-year Treasury Report to the Board of Management meeting following the end of the second quarter. This will summarise performance to date with regards to treasury management and in particular note the following:
- Debt summary and covenant report.

- Interest payable and receivable analysis.
- Rolling annual cash flow forecast.
- Analysis of liquid, near liquid and short term funds requirements at Quarter end and available funds to meet such requirements.
- Gapping report.
- Hedging report.
- Counterparty report.

## **8. TMP 7 – Budgeting, accounting and audit arrangements**

- 8.1. The Director of Finance and Corporate Services will prepare and the Board of Management 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 any associated income. The matters to be included in the budget will, at a minimum, be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 “Risk Management”, TMP2 “Best Value and Performance Measurement” and TMP4 “Approved Instruments, methods and techniques”. The Director of Finance and Corporate Services will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 “Reporting Requirements”.
- 8.2. Langstane 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.
- 8.3. Langstane will ensure its auditors and those charged with regulatory reviews, have access to all information and papers supporting the activities of the treasury management function, as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices.



## **9. TMP 8 – Cash and cash flow management**

- 9.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of Langstane will be under the control of the Director of Finance and Corporate Services and will be segregated for cash flow and investment management purposes.
- 9.2. Cash flow projections will be prepared on a regular and timely basis and the Director of Finance and Corporate Services will ensure these are adequate for the purposes of monitoring compliance with TMP1 “Risk Management”.

## 10. TMP 9 - Money laundering

- 10.1. Langstane is alert to the possibility it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it maintains appropriate procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this, are properly trained.

## 11. TMP 10 - Staff training and qualifications

- 11.1. Langstane recognises the importance of ensuring that all staff involved in the treasury management function has the skills required 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.
- 11.2. Officers involved in treasury operations will receive adequate training to provide them with the necessary skills and knowledge to keep them up to date with treasury management best practice. Training may include studying for recognised qualifications, external courses and conferences and internal courses and seminars. Each year the Director of Finance and Corporate Services will assess training needs and make appropriate provision for costs.
- 11.3. The Board of Management will receive regular training and development sessions to ensure they have the necessary skills to understand and approve treasury reports. This will be by means of in-house training sessions undertaken by both employees and external specialists. Where considered appropriate, Board of Management members may also attend external training courses.

## 12. TMP 11 – Use of external service providers

- 12.1. Langstane recognises that responsibility for treasury management decisions remains within the organisation at all times.
- 12.2. Langstane recognises the potential value of 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 the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- 12.3. In accordance with Langstane's Standing Orders the use of external advisers will be considered in the following circumstances:
- Ongoing treasury support with strategy and policy;
  - Provision of regular market information;
  - The raising of additional finance;
  - Negotiation and re-negotiation of loan covenants and margins; and
  - Recruitment of new team members.
- 12.4. Before external consultants are engaged, Board of Management approval will be sought with clear terms of reference established.
- 12.5. Once the use of external advisers has been agreed all Board of Management reports submitted where the external advisers have had an involvement will need to be reviewed by an officer of the organisation and where deemed appropriate presented by the external adviser.

### **13. TMP 12 – Corporate governance**

- 13.1. Langstane is committed to the pursuit of proper corporate governance throughout its business and services and to establishing the principles and procedures 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.
- 13.2. Langstane has adopted and has implemented the key recommendations of the Code. This, together with other arrangements detailed in Langstane’s treasury procedures are considered vital to the achievement of proper corporate governance in treasury management. The Director of Finance and Corporate Services will monitor and, if and when necessary, report upon the effectiveness of these arrangements.