



Treasury Management Policy			
Last Reviewed	November 2024	Next Review	November 2026
Responsible Officer	Chief Finance and Technology Officer		

## Introduction

This Treasury Policy ("Policy") sets out the treasury management policies of Freebridge Community Housing and its subsidiaries (the "Group"). The policies herein were adopted by the Group's Board on 14 November 2022 and are reviewed at least annually. In the production and on-going review of this Policy, the CIPFA guide to Treasury Management for Public Bodies (2021) has been consulted.

The Chief Finance and Technology Officer has overall responsibility for the delivery of this Policy. This responsibility may be temporarily delegated to other senior members of the Finance Team by the Chief Executive in the absence of the Chief Financial and Technology Officer.

## 1. Group Structure

The Group consists of the following entities:

- Freebridge Community Housing (Parent and main asset owning entity) and its subsidiaries.

This Policy applies to each member of the Group, both individually and on a consolidated basis, unless specified.

## 2. Scope

This Policy is set by the Group's Board for the benefit of its stakeholders and employees. It sets out the Group's policy regarding the operation, management, and control of its treasury activities (see section 4) and its treasury risks (see section 5) associated with those activities.

## 3. General Statement of Policy

The Group shall ensure the provision of the financial resources necessary to achieve the organisation's mission of "To be a top performing provider of housing as measured by our customers, colleagues and stakeholders". All associated procedures and strategies shall be structured to balance exposure to risks and maximise value to the Group.

Actions that could jeopardise the security or value of assets or detract from the delivery of the Group mission shall be minimised or avoided. In all Treasury Management matters, the Group shall act in accordance with the Board's stated risk appetite pertaining to Treasury Management and the Investment policy.

The Group has adopted the National Housing Federation Code of Governance 2020 and shall comply with that code in respect of financial, treasury management and governance matters. It shall also comply with "The regulatory framework for social housing in England from April 2010", as revised by the then Homes and Communities Agency, now Regulator of Social Housing (RSH) with effect from 1 April 2015 and last updated on 6 April 2017.

**Section 4** sets out the treasury activities that are the subject of this Policy.

**Section 5** identifies a non-exhaustive list of the key treasury risks that are a function of engaging in those activities.

## **4. Treasury Transactions and Activities**

### **4.1 Debt Finance**

The Group's policy is to finance itself with debt (as well as grant funding and internally generated surpluses). For the purpose of this Policy, debt includes the borrowing of loans from banks and financial institutions, the issuance of debt in the capital markets (public or private) and finance lease arrangements.

Debt Finance gives rise to all categories of Treasury Risk and the Group will procure Debt Finance subject to the policies set out in this document. A set of specific permitted borrowing arrangements are set out at Appendix A.

### **4.2 Cash and Cash Investments**

The Group's policy is to hold cash in its bank accounts and, from time to time, have cash investments placed on deposit in order to manage its day to day working capital and liquidity.

Subject to the Group's Liquidity Policy (see section 0), cash & cash investments will be kept to a prudent (after taking into account prevailing economic conditions) minimum. They will have a term or availability of not more than twelve months, unless otherwise approved by the Board. A set of specific permitted deposit and investment arrangements are set out at Appendix A.

Cash and cash investments give rise to several treasury risks, especially counterparty credit risk and fraud & error risk, and the Group will manage is Cash & Cash Investments subject to the policies set out in this document.

### **4.3 Management of Interest Rates**

All Treasury activities create Interest Rate Risk, i.e. the risk relating to interest payable on borrowings, interest receivable on Cash and Cash Investments and cashflows relating to any derivatives contracts. In the case of borrowings, the interest rate may be floating, fixed or

capped, at the option of the Group, while for Cash and Cash Investments the rate is generally floating and/or have a short term to maturity. Derivatives contracts give rise to fixed and floating rate cashflows.

The Group's policy is to manage its Interest Rate Risk (i.e. the risk that movements in interest rates will have an adverse effect on the Group or its subsidiaries) on an aggregate basis, across all types of treasury activity, both on a consolidated basis and individually for each subsidiary company. A set of specific permitted hedging arrangements are set out at Appendix A.

#### 4.4 Foreign Exchange

The Group's policy is to not engage in activity that creates Foreign Exchange Risk, nor will it enter into foreign exchange transactions. Where it is required to do so transactions will be limited to [£100,000].

### **5. Treasury Risks**

The Group faces a number of risks when undertaking its treasury activities. A set of key risks are identified and defined in this section of the Policy, alongside the Group's policy parameters to ensure the risk is effectively managed. Whilst these are identified as the key treasury risks facing the Group, this is not designed to be an exhaustive list.

#### 5.1 Liquidity Risk

This relates to the risk of the Group becoming unable to meet its financial obligations when they fall due, including an allowance for reasonably unexpected scenarios.

The Group will hold sufficient liquidity to meet its committed and reasonable contingent liabilities, but seeking to ensure that the Group will only borrow in advance of need where there is a clear business case for doing so and within the parameters set out in the Liquidity Policy set out below. This treasury risk is closely related to security risk, which is covered separately at Section 5.5.

The Group's policy on **Liquidity Risk** is as follows:

- a. The Group will maintain "**Liquid Funds**" equal to its forecast Net Cash Outflow for a rolling **one-month period**, subject at all times to a minimum cash balance of [£3m].

**Liquid Funds** is defined as:

- Immediately available cash, plus
- Secured undrawn committed borrowing facilities that are capable of being drawn down with not more than three days' notice.

- b. The Group will maintain “**Short Term Funds**” equal to its forecast Net Cash Outflow for a rolling **six-month** period. Short Term Funds are defined as follows.
- Liquid Funds, plus
  - Cash Investments with a maximum maturity of up to one month.
  - Secured undrawn committed borrowing facilities that are capable of being drawn down with not more than ten days’ notice.
- c. The Group will maintain “**Long Term Funds**” equal to its forecast Net Cash Outflow for a rolling **eighteen-month period**. Long Term Funds are defined as follows.
- Short Term Funds, plus
  - Cash Investments with a maximum maturity of between one and six months, plus.
  - Undrawn committed borrowing facilities where sufficient unencumbered security has been identified and is capable of being charged such that an adequate portion of the facility may be drawn down with not more than six months’ notice.

“**Net Cash Outflow**” for a given period is defined as the net total of all cash inflows and all cash outflows (but excluding 50% of forecast sales surpluses and excluding any uncommitted development spend)

In addition to the above minimum requirements, the Group will also ensure that the Group will seek to borrow from a diversified range of lenders and funding markets, giving due regard to the credit standing of its lending counterparties. The Group will also seek to ensure that its loan maturities are distributed over time in a manner that avoids any excessive concentration of refinancing risk in anyone-year or five-year period.

## 5.2 Interest Rate Risk

This relates to the risk that changes in the interest rates payable and/or receivable under the Group’s treasury transactions and activities have a material adverse effect on the Group’s finances.

The key report for monitoring its interest rate risk is the interest rate risk profile in the Quarterly Treasury Report.

The Group’s policy on Interest Rate Risk is as follows:

### **1. Fixed rate proportion limits**

- a. The Group will ensure that the aggregate sum of its treasury transactions (principally **borrowings**) **subject to fixed (or capped)** interest rates is sufficient to minimise the risk of a breach of any financial covenant due to an adverse change in prevailing-market interest rates, over a rolling five-year horizon.
- b. The precise proportion of fixed (rate is fixed for 12 months or more) rate borrowings will be set each year when the Board approves the Annual Treasury Strategy. It will be subject always to the parameters set out in the table below:

Type of Exposure	Minimum	Maximum
<b>Fixed rate</b>	70%	100%
<b>Floating rate</b>	0%	30%

Fixed rate exposure is defined as fixed interest rate agreements with greater than 12 months to expiry of the fixed rate period.

Floating rate exposure is defined as:

- a) LIBOR or SONIA linked.
- b) Fixed interest rate agreements with 12 months or less to expiry
- c) Loans linked to a lender's funding cost.
- d) Capped, collared or cancellable rate exposure where interest rate variability arises under stress scenarios (for the avoidance of doubt, cancellable swaps with cancellation dates which occur more often than every 12 months shall be treated as floating rate exposure)

Note that The Group is therefore not currently permitted to enter into hedging transactions outside of its loan agreements. If standalones were considered for use, then this would need to be approved, along with additional documentary requirements, by the Board at the time.

### 5.3 Foreign Exchange Risk

The Group's policy is to not incur any material exposure to foreign exchange risk. It will not, therefore, contract with suppliers in any currency other than Sterling for goods or services in amounts exceeding the then equivalent of £100,000. Nor will it enter into any financial arrangement (i.e. debt, cash deposits, investments, foreign exchange transactions and derivatives contracts) not denominated in Sterling only.

### 5.4 Counterparty Credit Risk

This refers to the risk of payment default by the counterparty in a Group treasury transaction. Cash and Cash Investments are of primary importance, but Counterparty Credit Risk also arises in respect of undrawn borrowing facilities and mark-to-market assets. The Group's key report for management of its Counterparty Credit Risk is the summary of counterparty exposures against limits schedule in the Quarterly Treasury Report.

The Group's policy on Counterparty Credit Risk is:

#### **1. Minimum Credit Rating Criteria**

- a. The Group will ensure that counterparties to its Cash and Cash Investments have a short-term senior unsecured rating attributed by at least one of Standard & Poor's, Moody's, or Fitch. Any such rating will be equal or above the

corresponding counterparty limit set out in the table below. The counterparty must also be a UK incorporated institution falling under the supervisory regime of the Financial Conduct Authority.

- b. The Group will also ensure that its committed undrawn borrowing facilities are provided by counterparties that have a long-term senior unsecured credit rating attributed by at least one of Standard & Poor's, Moody's, or Fitch. Again, such rating will be equal or above the corresponding counterparty limit set out in the table below.

Type	Rating (Min) ** Moody's/Fitch/S&P	Investment Limit * £m	Maturity Limit
Short-term deposit	P1/F1/A1	£10m	12 months
Short-term deposit	P2/F2/A2	£5m	3 months
Money market funds ("MMF")	Aaa	£10m	Overnight
UK Gov. Securities	N/a	£10m	2 years

\* In certain circumstances, for operational reasons, the Group may place up to 100% of its surplus cash on deposit (which exceeds the Investment Limit) with its main clearing bank for a period of up to 14 business days, or a longer period with Board approval. Such circumstances include but are not limited to: -

- the receipt of proceeds from the issuance of debt and/or
- the receipt of proceeds from the sale of an asset.

\*\* Where a counterparty has more than one credit rating, it is required to achieve a minimum of two of the ratings.

\*\*\* Following a decision to downgrade a counterparty below the Minimum Credit Rating Criteria, the Chief Finance and Technology Officer should convene with the Chief Executive to discuss an action plan (with external advice) and either move the investment at its next rollover date or immediately, and the Leadership Team and Board to be notified.

**Money Market Funds ('MMF')** need to meet the following minimum criteria (in addition to the criteria above):

- a) Minimum total size of individual MMF: £2bn
- b) Constant Net Asset Value (following implementation of the EU's Money Market Funds Regulation which applies to all existing funds post January 2019)
- c) ESMA Regulated

## 5.5 Security Risk

The Group's security availability is linked to its liquidity policy parameters set out in Section 5.1. With these liquidity parameters in mind, the Group will at all times ensure that its

property security portfolio is efficiently managed with a view to minimising liquidity risks and maximising future borrowing capacity.

In addition to the quarterly reporting on liquidity, the Group will assess its security position every 12 months as part of the Treasury Strategy.

The Group will maintain a document which summarises key information relating to its security portfolio including, inter alia, (for each lender) current charged security values, asset cover performance versus covenants, and dates for next valuations.

In line with the requirements of the regulatory standard, the Group will maintain a thorough, accurate and up to date record of all assets which are provided as security. This will be integrated with the approach to meeting the regulatory requirement for record-keeping in relation to assets and liabilities.

Where appropriate, security will be charged via a security trust arrangement where it can be allocated between lenders in the most efficient way.

#### 5.6 Legal / Compliance Risk

The Group will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will also undertake reasonable due diligence in respect of the powers, authority, or license of any counterparty to its Treasury Transactions. In the case of all borrowing and derivatives transactions, the Group will engage suitably qualified solicitors. The Group will also maintain a policy on money laundering.

#### 5.7 Financial Covenant Risk

It is the policy of the Group to meet all of its obligations under its various financing arrangements.

In addition, the Group's policy is to ensure that its forecast performance against its financial covenants contains a suitable amount of headroom.

The required policy headroom is to be as follows:

Interest cover – Freebridge will maintain at least 50% headroom against its tightest interest cover covenant (i.e. if the covenant is set at 130% then the policy minimum is 180%).

Gearing - Freebridge will maintain at least 10% headroom against its tightest gearing covenant (i.e. if the covenant is set at 70% then the policy maximum is 60%).

## 5.8 Other Financial Covenants and Undertakings

The Group's policy is to ensure that all covenants, undertakings, and obligations in respect of its Treasury Transactions are met, including but not limited to its on-lending restrictions.

The Group's key report for the management of its Legal & Compliance Risk is the schedule of compliance in the Quarterly Treasury Report, which will summarise compliance matters that have been met in the previous quarter, the compliance matters due in the coming quarter and any outstanding items.

## 5.9 Risk of Fraud and/or Error

This relates to the risk of financial loss by the Group due to fraudulent or erroneous action by an employee. The Group's policy is to ensure that a range of Treasury Management Principles (set out in section 6 below) are adopted and followed. The Group's key report for the management of fraud and error risk is its Quarterly Treasury Report.

# **6. Treasury Management Principles**

## 6.1 Segregation of duties

The Group will ensure that duties in respect of its Treasury Transactions are suitably segregated.

- a) No officer may both execute a Treasury Transaction and approve the payment relating to that transaction.
- b) No officer may both execute a Treasury Transaction and record it in the accounts of the relevant company.
- c) The Group will ensure that confirmation letters are exchanged between a Group company and its counterparty in respect of all Treasury Transactions.
- d) All confirmation letters received from a counterparty shall be checked by an officer other than the officer who initiated such transaction. All confirmation letters issued by a Group company to a counterparty shall be issued by an officer other than the officer who initiated such transaction.

## 6.2 Delegation of Authority

The Group will ensure that the Board delegates authority to its officers to execute Treasury Transactions in a clear and unambiguous manner.



### 6.3 Procedures & Systems

The Group will ensure that suitable procedures and systems are in place to manage its treasury activities and compliance with this Policy. Proper records will be kept of the approval of all Treasury Transactions and full transaction documentation (i.e. loan agreements, derivatives contracts, confirmations in respect of deposits placed and all bank statements) will be retained.

### 6.4 Advice, Qualifications & Training

The Group will ensure that its officers are suitably qualified and/or experienced in respect of the treasury-related responsibilities assigned to them. Sufficient training will be obtained as necessary and access to appropriate external advisors will be provided if required. Expert external advice will be obtained where necessary.

### 6.5 Regular Reporting

The Group will ensure that the Board receives regular reports on treasury matters. This will include, but not limited to, a Quarterly Treasury Report and an Annual Treasury Report. Breaches of policy will be reported by exception as soon as they are identified.

Members of the Board should receive sufficient training to ensure they understand this Policy, the Annual Treasury Strategy, and the Quarterly Treasury Reports.

### 6.6 Regular Audit

The Group will ensure that its treasury operations are subject to independent assessment by a suitably qualified firm at least once every three years and that its treasury operations are within the scope of the annual external audit.

### 6.7 Maintenance of Insurance

The Group will ensure that its treasury operations are suitably insured against fraud and error.

### 6.8 Bribery & Corruption (legislation)

The Group will ensure that a suitable bribery & corruption policy is in place that meets the requirement of current legislation.

## 6.9 Accounting & Tax

The Group will ensure that the accounting and tax implications are fully understood before any Treasury Transaction is entered in to.

### **7. Key Reports**

Under the guidance of the Chief Financial and Technology Officer, the Group's treasury team will prepare the following reports:

FREQUENCY	REPORT
Annual	Annual Treasury Strategy Annual Review of Treasury Policy
Quarterly	Quarterly Treasury Report
Weekly	24-month cash flow forecast
Ad hoc	Treasury Policy Exception Report Transaction Execution Report

The Chief Financial and Technology Officer will ensure that any treasury reporting, and management information contains sufficient analysis and detail so as to enable the Board and Committee responsible for Treasury matters to gain a clear and complete understanding of the current treasury position, recommended strategies, and proposed transactions.

#### 7.1 Annual Treasury Strategy

The Committee responsible for Treasury matters will receive for consideration and, where appropriate, recommend to the Group Board for approval, an Annual Treasury Strategy at around the beginning of each financial year as part of the annual financial planning process. The following items will be covered by the Annual Treasury Strategy:

##### **Treasury Position Analysis**

- A review of treasury management activities over the past year against the prior Annual Treasury Strategy, highlighting and explaining any significant departures from approved strategies
- Analysis of economic and financial market conditions (including the current term structure of interest rates and key forward looking market information)
- A complete analysis of current borrowing, investment and hedging positions, including a projected profile of borrowing maturities and fixed, floating, and inflation linked exposure.
- A 30-year cash flow forecast based on latest approved business plan and clear identification of funding requirements, if any, over the next 5 years

- Assessment and confirmation of the Group's continued ability to meet all its financial covenants, including analysis of current and projected performance against covenants.

### **Treasury Policy, Strategy, and Transaction Recommendations**

- Review of Treasury Policy and, where appropriate, recommendations to amend to limits and risk controls.
- Statement of expected amounts to be borrowed during next 12 months (if any)
- Proposed borrowing strategy and analysis of options.
- Statement of expected cash surpluses over next 12 months (if any) and proposed.
- Strategy for allocating cash surpluses
- Proposed interest rate management strategy and identification of specific hedging transactions

## **7.2 Quarterly Treasury Report**

The Committee responsible for Treasury matters will receive for consideration, at least quarterly, a Quarterly Treasury Report which should contain, inter alia, the following items:

### **General Items**

- An analysis of key treasury activities undertaken since the previous report
- An update on financial market conditions
- Statement of compliance with treasury policy limits and explanation for exceptions/breaches during quarter
- Update on progress against (or deviations from) Annual Treasury Strategy targets.

### **Borrowing Related Items**

- Analysis of borrowing arrangements (amounts outstanding and key terms)
- Analysis of drawdowns and repayments during the preceding quarter
- Analysis of scheduled borrowing maturities over the next 36 months
- Statements of compliance with borrowing covenants and Covenant Golden Rules (including forecasted compliance)

### **Cash/Investment Related Items**

- Analysis of Cash and Liquidity position – evidencing compliance with Liquidity Policy
- Latest 24-month cash flow forecast

### **Hedging related Items**

- Analysis of fixed, floating and inflation linked debt.
- Analysis of risk management transactions entered into during the preceding quarter.
- Latest quarter end MTM values of all hedging positions (and changes during quarter)

## Security Related Items

- Analysis of security charged to lenders (units, value, headroom vs asset cover covenants)
- Analysis unencumbered security and expected completions – linked to Liquidity Policy

### 7.3 Cash-flow monitoring

Forecast	Cash flows	Frequency
Short term	13-week cash flow schedule showing weekly Net Cash Outflow	Weekly
Short term	24-month cash flow schedule showing monthly Net Cash Outflow	Weekly
Medium term	5-year cash flow schedule showing monthly Net Cash Outflow	Annually
Long term	30-year cash flow schedule based on latest approved business plan showing annual Net Cash Outflow to be included in Treasury Strategy	Annually

## 8. Breaches of Policy

Any breach of Policy should be reported to the Board, whether remedied or not, together with a suitable explanation and any remedial action taken and/or proposed.

### Schedule of Permitted Treasury Transactions

The following investments are Approved Investments\*:

- (i) Fixed term deposit
- (ii) Call deposit.
- (iii) Collateral deposit
- (iv) Money market fund investment
- (v) UK Government securities (treasury bills and gilts)

### Approved Instruments: Borrowing Arrangements

The following borrowing arrangements (on a secured or unsecured basis) are Approved Instruments\*:

- (i) Bank term loan.
- (ii) Bank revolving credit facility.
- (iii) Bank overdraft facility.
- (iv) Listed public bond.
- (v) Private Placement
- (vi) Established group borrowing arrangements (e.g. THFC, Ara Venn)
- (vii) Inter-company loans
- (viii) Local authority loan

### Approved Instruments: Hedging Arrangements

The Group may only undertake hedging transactions which are embedded into bank loan agreements. The following hedging arrangements (in embedded format) are Approved Instruments\*:

- (i) Fixed rate agreement
- (ii) Interest rate cap
- (iii) Interest rate collar
- (iv) Inflation-linked rate agreement
- (v) Interest rate cap with optionality

The Group will not enter into standalone derivative transactions unless prior approval is provided by the Board.

\* Only permitted to transact with counterparties that meet the Counterparty Credit Risk policy limits

## Scheme of Delegated Authority

Party	Delegated Authority / Responsibility
<b>Board</b>	<ul style="list-style-type: none"> <li>• Set Treasury objectives and risk appetite.</li> <li>• Approval of Treasury Management Policies</li> <li>• Approval of the Annual Treasury Strategy</li> <li>• Approve final terms of new borrowing arrangements or interest rate management transactions.</li> <li>• Approval of the Treasury budget</li> <li>• Approval of the annual financial business plan, including stress-testing</li> <li>• Review Treasury Policy Exception Reports and agree corrective activity</li> </ul>
<b>Committee Responsible for Treasury Matters</b>	<ul style="list-style-type: none"> <li>• Periodically (and at minimum annually) review the Treasury Management Policy and recommend any amendments to Board for approval.</li> <li>• Recommend an Annual Treasury Strategy to Board for approval.</li> <li>• Receive Treasury reports (at each meeting) in order to monitor the implementation of treasury policy and the effectiveness treasury activities.</li> </ul>
<b>Chief Finance and Technology Officer</b>	<ul style="list-style-type: none"> <li>• Implementation of Annual Treasury Strategy.</li> <li>• Negotiation of the detailed terms of borrowing, investment, and hedging transactions.</li> <li>• Execution of treasury transactions approved by the Board.</li> <li>• Authority to manage liquidity within approved treasury policy limits, including investment of surplus funds with appropriate counterparties, drawdown from pre-agreed committed borrowing facilities, loan rollovers, drawdown, and repayments from RCFs, and utilisation of overdraft facilities.</li> <li>• Prepare and submit Treasury related budgets (and forecast revisions) to Board for approval.</li> <li>• Prepare and submit treasury reports to the Committee responsible for Treasury matters and Board.</li> <li>• Monitor and review Treasury management information.</li> <li>• Continuously review the effectiveness of treasury processes and systems with a view to achieving best value for money.</li> <li>• Monitor the security portfolio and ensure adequate security is charged against all borrowing agreements.</li> <li>• Ensure that suitable training is provided for staff involved in Treasury activities.</li> </ul>

<b>Head of Finance</b>	<ul style="list-style-type: none"> <li>• Investment of cash surpluses subject to dealing mandates and policy limits.</li> <li>• Execution of loan transactions and administration of borrowing facilities.</li> </ul>
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