TREASURY MANAGEMENT POLICY 2017/18

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FOR APPROVAL BY:

BPHA LIMITED BOARD

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1 TREASURY MANAGEMENT POLICY STATEMENT

1.1 This document sets out the Treasury Management Policy of bpha. bpha recognises the importance of an effective treasury management service and in compiling this policy has reviewed the Housing Corporation Circular Treasury Management for Housing Associations 01/07 and the Tenant Service Authorities Good Practice Guide Treasury Management for Housing Associations (Issued May 2009) and has consulted CIPFA's Treasury Management in the Public Services: Code of Practice (the "Code") and accompanying guidance notes.

1.2 For the purpose of this Treasury Management Policy (TMP) document bpha refers to bpha Limited, together with any subsidiary or associated businesses that are under the control of bpha Limited.

1.3 The bpha Board retains responsibility for the approval and regular review of bpha's Treasury Management Policy (TMP) and monitoring of its implementation, but has delegated to the Finance & Treasury Committee (FTC) responsibility to consider, scrutinise and constructively challenge the TMP before it is presented to Board. Execution and administration of treasury management decisions is the responsibility of the Head of Treasury reporting to the Chief Financial Officer (CFO), who will act in accordance with bpha's TMP.

1.4 bpha defines its treasury management activities as "The management of bpha's cashflows, its borrowings, banking, money market, capital market transactions and investment appraisals, along with the effective management of the risk-return trade-offs associated with these activities."

1.5 bpha acknowledges that effective treasury management will support the achievement of its business and service objectives. It is therefore committed to employing suitable performance measurement indicators that capture how well treasury has supported bpha's business objectives.

1.6 bpha regards the successful identification, monitoring and control of cost and 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 bpha.

2 RISK MANAGEMENT

2.1 General Statement

2.1.1 The Board of bpha set the risk appetite for bpha. In relation to Finance & Treasury Risk the appetite was defined as "Cautious" which means bpha is prepared to accept the possibility of some well managed risk in this area. bpha's risk appetite is considered in the context of its relatively high gearing level which means that appropriate risk buffers above covenant and liquidity thresholds are required for both existing and future activities.

2.1.1 The Head of Treasury will design, implement and monitor all arrangements for the identification, management and control of financial, economic and operational risk in relation to Treasury matters. Such arrangements are to include testing of the sensitivity of the annual Business Plan to changes in key assumptions and detailed stress testing to identify circumstances that could possibly "break" bpha. The outcome of such testing will help inform the Executive & Board as part of their wider risk management. The Head of Treasury as part of the Treasury Management Risk Management framework will report at least annually as part of the Annual Treasury Report (ATR) on the adequacy/suitability thereof, and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving bpha's objectives in this respect, all in accordance with the procedures set out below in "Reporting requirements and management information arrangements". In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in Appendix 1.

2.1.1 It should be noted that the ultimate responsibility in respect of Risk Management rests with the Chief Executive but the quarterly reporting in relation to Treasury Risk Management is completed by the Head of Treasury and submitted in accordance with the Corporate Risk Management framework extant for appropriate internal oversight.

2.2 **Liquidity Risk Management**

2.2.1 bpha will ensure it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.

2.2.1 "bpha's Treasury Policy – Authorisation Limits" are included as Appendix 4 to this report and set out bpha Board approved financial parameters within which bpha must operate.

2.3 **Interest Rate, Inflation and Covenant Breach Risk Management**

2.3.1 bpha will manage its exposure to short term fluctuations in interest rates with a view to achieving optimum funding costs to support its strategic objectives and manage interest rate risk in line with its Board approve risk appetite for Treasury.

2.3.1 The long term effects of varying levels of inflation and interest rates will be managed by bpha as an integral part of its strategy for managing its overall risks.

2.3.1 bpha will achieve these objectives by the prudent use of its approved financing and hedging instruments, methods and techniques, primarily to create stability and certainty of surpluses in line with bpha's financial strategy, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates or inflation. The above are subject, at all times, to the consideration and, if required, approval of any policy or budgetary implications.

2.3.1 bpha will ensure that covenant compliance is monitored in accordance with "Reporting requirements and management information arrangements" and will ensure that lenders receive on a timely basis such information as they require.

2.3.1 bpha will not incur exchange rate risk and accordingly will either only borrow and invest in sterling (or other currency of the UK) or, in exceptional circumstances (when permitted by its rules), will hedge back into sterling any foreign currency transactions.

2.4 **Counterparty Credit Risk Management**

2.4.1 bpha recognises the risk whereby the inability of a provider of a credit facility, deposit taker, or derivatives counterparty to fulfil its contractual obligations when they fall due, or reduction in creditworthiness, may result in a financial loss or liquidity problem for bpha. bpha will therefore maintain a formal counterparty policy in respect of those organisations from which it draws funds on committed facilities, or with whom it may enter into derivative transactions, or with whom funds may be deposited. The longer the maturity of the commitment period, derivative or investment, the greater the counterparty credit risk, and hence the minimum credit quality requirements will be more stringent.

2.4.1 Appendix 1 to this TMP details the minimum acceptable levels for Counterparty Credit Risk Management. These minimum levels can be amended by the CFO but any such amendments must be reported to the Chair of the Finance & Treasury Committee (FTC). The CFO or Chair of FTC may, if they feel it appropriate, notify the Board at their next meeting.

2.5 **Refinancing Risk Management**

2.5.1 bpha will prepare reliable forecasts of both the terms and maturities of current borrowings and anticipated net development expenditure. It will ensure that its borrowing arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to bpha as can reasonably be achieved in the light of market conditions prevailing at the time.

2.5.1 Appendix 1 to this TMP details the target level of maximum exposure to refinancing in any 12 month period.

2.6 **Legal and Regulatory Risk Management**

2.6.1 bpha 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.

2.6.1 bpha 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 bpha.

2.6.1 bpha will comply with all necessary obligations in relation to standalone derivatives under the European Market Infrastructure Regulation (“EMIR”). If appropriate, bpha can delegate these requirements to a third party.

2.7 **Fraud, Error and Corruption, and Contingency Management**

2.7.1 bpha will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, software or hardware failure or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements.

2.8 **Treasury Operational Risk**

2.8.1 To mitigate Treasury operational risk bpha shall have in place stringent control frameworks.

2.8.1 The bpha control framework shall include, but not be limited to:

- Policies;
- Procedures;
- Limits;
- Mandates;
- Segregation of duties;
- Reconciliation;
- Confirmation;
- Documentation;
- Management reporting; and
- Compliance monitoring.

3 PERFORMANCE MEASUREMENT

3.1 bpha is committed to the use of qualitative and quantitative performance measurement indicators for its treasury function.

3.2 Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of bpha’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, and of the scope for other potential improvements.

3.3 Performance measures relating to investments will revolve around the calculation of financial results within the agreed risk limits.

3.4 Performance measures relating to service will focus on the value added to the organisation as a whole and meeting the set objectives.

3.5 Measures will include, but will not be limited to:

- Dealing performance
- Hedging activity
- Cash forecasting performance
- Level of service

- Controls compliance and
- Cost performance

3.6 Appendix 5 to the TMP "Treasury KPI's" sets out an indicative list of the qualitative and quantitative performance measures, the details of which are subject to annual FTC approval.

4 DECISION-MAKING AND ANALYSIS

4.1 bpha will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

5 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

5.1 bpha will undertake its treasury management activities by employing only those instruments, methods and techniques detailed at Appendix 2, and within the limits and parameters defined in "Risk Management" in section 2 above.

6 ORGANISATION, SYSTEMS, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

6.1 bpha considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of maximum effectiveness that there is at all times clarity in the chain of command for treasury management responsibilities so that there is clear accountability.

6.2 Systems will be implemented for all aspects of the Treasury Function and will be subject to audit by both bpha's Internal and External Audit functions. The Head of Treasury will ensure that there are written procedures that cover all processes and systems. The procedures will be reviewed at least every 2 years, or earlier as circumstances change. Staff will adhere to the documented system processes at all times.

6.3 bpha considers it desirable, for the purposes of reduction of the risk of fraud or error, that there is a clear separation between front office and back office activities but recognises that within a small Treasury team this may not always be practicable. The front office includes those persons charged with implementing policies and executing transactions with counterparties, including negotiating new funding facilities or other contracts and treasury dealing. The back office consists of those responsible for signing confirmations, transmission of funds, recording and administering of treasury management decisions and audit of the treasury management function.

6.4 The Treasury Function will strive for continuous improvement in the effectiveness of the Treasury Systems that it adopts for the provision of services to its customers and supporting bpha in delivering its business plan objectives; to the extent that this objective does not compromise the achievement of bpha's overriding commitment to a robust system of internal financial control.

6.5 The Head of Treasury will ensure that there are clear written role profiles for each post engaged in treasury management, and the arrangements for absence cover.

6.6 The Head of Treasury will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

6.7 The Head of Treasury holds operational responsibility for treasury policies, procedures and activities. The Board has delegated responsibility to the FTC for the annual monitoring and review of the Treasury Management Policy and of the Annual Treasury Report.

6.8 Where executive decisions on borrowing, investment or financing are delegated by the Board to the FTC and/or to the Chief Financial Officer and/or in turn to the Head of Treasury this will be documented either by means of the Annual Treasury Plan approved by the Board or elsewhere such as in Board Minutes. The Chief Financial Officer and the Head of Treasury will fulfil all such responsibilities in accordance with this Policy Statement and in accordance with best professional practice.

7 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

7.1 bpha will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implication of changes resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

7.2 As a minimum, the Board requires the FTC to receive:

- An annual report on the plan to be pursued in the coming year (the Annual Treasury Plan (ATP)).
- An Annual Treasury Report (ATR) on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with bpha's TMP statement. This ATR will then serve as the formal record of treasury management activities during the year.

7.3 The ATR will normally summarise matters that have been reported as part of the Quarterly Treasury Reports (QTR) and other routine treasury updates presented to FTC / Board during the year.

7.4 The present arrangements and the form of these reports are detailed in Appendix 3.

7.5 Reports to funders will be made in accordance with their requirements.

7.6 The Head of Treasury will also deliver a Quarterly Treasury Report (QTR) to the FTC following the end of each financial quarter. The content of this report will be as detailed in Appendix 3.

8 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

8.1 The Head of Treasury will prepare an annual budget for treasury management as part of bpha's budgetary process, which will bring together all of the costs involved in running the treasury management function, together with any associated income. The Head of Treasury will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with the previous section.

8.2 bpha 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 bpha will ensure that 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 CASH AND CASHFLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, best endeavours will be used to ensure that all monies in the hands of bpha will be aggregated for cashflow and investment management purposes. Cashflow projections will be prepared on a weekly, monthly and annual basis, and the Head of Treasury will ensure that these are adequate for the purposes of monitoring and forecasting bpha's liquidity requirements.

9.2 bpha will prepare annual cashflow forecasts for each financial year as well as rolling 12-month cashflow projections.

10 MONEY LAUNDERING

10.1 bpha is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that staff involved have been appropriately trained in the legal requirements pertaining to money laundering and, in particular "know their clients and counterparties". Any suspicious activities are to be reported to the Company Secretary.

11 STAFF TRAINING AND QUALIFICATIONS

11.1 bpha recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The Chief Financial Officer will therefore ensure that a suitably experienced and qualified Treasury professional is in post as the Head of Treasury. The Head of Treasury will seek to appoint individuals who are both capable and experienced and that training will be provided for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Financial Officer will be fully responsible for the competence of the individuals to whom they delegate.

11.2 bpha also recognises that those charged with governance of bpha should receive training to equip them in their decision making and should also contain members with relevant skills and experience within their number.

11.3 The Chief Financial Officer must ensure that the activities undertaken by treasury are in line with the experience and skills of the staff and their external advisors and that they are able to supervise the staff by asking the relevant questions.

11.4 The Board and the Chief Executive must ensure that the Chief Financial Officer has the necessary skills and experience to cope with the level of complexity of bpha's treasury management function.

11.5 At all times it must be clear who the responsible individual is and who is responsible for delegating to such an individual. Lack of clear accountability constitutes a major risk.

12 USE OF EXTERNAL SERVICE PROVIDERS

12.1 bpha recognises the potential value of employing external providers of treasury advisory services, in order to acquire access to specialist skills and resources. Before engaging such service providers, we will ensure that a full evaluation of the costs and benefits has been undertaken and that the terms of their appointment are properly agreed, and subjected to regular review. The monitoring of such arrangements, including assessment of value for money achieved, rests with the Head of Treasury.

13 CORPORATE BANKING ARRANGEMENTS

13.1 bpha aims to achieve best value from its day to day corporate banking arrangements and will review its arrangements on a periodic basis with reference to the suitability of current arrangements to meet the requirements of the business, potential to procure services that will improve the effectiveness of the Treasury Systems and their competitiveness against the market. The review period will be agreed by the Board.

14 ACTING OUTSIDE THE LIMITATIONS OF THE TREASURY POLICY IN EXCEPTIONAL CIRCUMSTANCES

14.1 It is recognised that in exceptional circumstances the Chief Financial Officer may consider that it would be detrimental to the interests of bpha to comply with an aspect of this treasury policy. These instances are most likely to happen in situations where swift action is required outside of the normal FTC / Board meeting cycle. For instance, in a period of high counterparty risk it may be necessary to fully draw on low margin facilities because of rumours in the market about the credit risk of a given banking institution.

14.2 Where the Chief Financial Officer considers such action is required, they will notify either the Chair of the bpha Board or the Chair of the Finance & Treasury Committee to obtain approval to act outside this policy. The request for approval will include the reasoning behind the request, the proposed action, and the expected duration of any breach.

14.3 Any action taken under this section will be reported to the Board as soon as practicable, and in any event, no later than at its next meeting.

APPENDIX 1: RISK MANAGEMENT ARRANGEMENTS

1 RISK APPETITE

1.1 The Board's risk appetite statement for all of bpha's activities is reviewed annually. In relation to finance and treasury the Board has defined its risk appetite as "cautious".

1.2 All treasury activities will be undertaken by reference to the Board defined risk appetite.

2 LIQUIDITY RISK MANAGEMENT

2.1 bpha will ensure that its liabilities will always be met when due and will ensure adequate liquidity is at all times available to meet unexpected expenditure requirements that may arise from time to time.

2.2 Liquidity will be managed by:

- Daily monitoring of cleared bank balances
- Effective cashflow forecasting and monitoring systems to identify potential shortfalls against available facilities
- Diversifying risk by spreading available facilities through different counterparties
- Minimising borrowings by only drawing down funds when required and repaying when cash is available and it is beneficial to do so (whilst paying due regard to counterparty risk of not being able to draw down funds from given bank counterparties)
- Monitoring the spread of maturities on available facilities
- Monitoring the interest basis and ensuring the most appropriate basis is used
- Monitoring the mark to market and collateral positions on any stand-alone derivatives.

2.3 Liquidity will be sourced, within the Counterparty Guidelines below, by a combination of:

- Bank overdraft facilities with the main relationship banks
- Committed loan facilities
- Cash deposits and investments at hand.

2.4 bpha will maintain a minimum level of liquidity in line with:

- The Treasury Management Policy authorisation limits. These are summarised in Appendix 4 to the TMP.
- A formal policy is adopted requiring the business to aim to maintain at least one month's forecast cash requirement on deposit, facility headroom to meet two year's forecast net development spend and security headroom to meet one year's forecast net development spend, with reporting requirements and remedial action plans should the actual headroom at any time fall to half the target level.

3 LOAN ADMINISTRATION

3.1 bpha will have processes in place to manage drawdowns, security, balances, capital repayments, interest, and fees.

3.2 A process for recording and checking the security applied to each facility to ensure sufficient security is in place ahead of projected debt drawdown will be in place.

4 INTEREST RATE, INFLATION AND COVENANT BREACH RISK MANAGEMENT

4.1 The Head of Treasury is responsible for monitoring bpha's interest rate risk exposures and for implementing the strategy for the management thereof within the guidelines and policies established in this Treasury Management Policy and the Annual Treasury Plan.

4.2 bpha risk appetite is defined and agreed by the Board and this is to guide the funding structure proposed through the ATP. Through stress tests and simulations of the business plan, bpha will form its view of the nature of the liabilities which it is prepared to assume and in what proportions. In determining the optimum fixed, variable and inflation-linked mix of debt, bpha will pay due regard to the following:

- bpha will minimise the risk of covenant breach in the short to medium term
- Where there is a non-negligible probability of a covenant breach in the medium term, bpha will decide early whether to renegotiate covenants with lenders or to alter the business plan or funding strategy to reduce the risk. The former should be considered whenever it is felt that the covenant would impose a divergence from the desired strategy
- Long term risk cannot be eliminated and can only be managed as a risk-return trade-off. It is therefore impossible to consider this risk independent of long term cost implications. For example, there is evidence that over the long term variable rates tend not to increase as much as the yield curve predicts (in a positive sloping yield curve environment) resulting on average in lower costs for variable rate debt over the long term than for fixed rate debt
- The usefulness of Inflation-linked debt to aid long term cashflow stability

4.3 The extent to which bpha is exposed to variable interest rates will be determined in the Annual Treasury Plan, and will be expressed in terms of percentage mix, with permissible ranges within which the Head of Treasury can operate. Having regard to future projected funding requirements, likely sources of funding and repayment of existing debt, the Head of Treasury will ensure that bpha does not become over-hedged.

4.4 The target optimum mix of debt will be the result of stress tests and simulations based on both subjective judgements and historic relationships between fixed and variable interest rates and inflation and the links between bpha's debt servicing costs and its revenues. Although the determination of this optimum is not an exact science, the Head of Treasury should always aim to achieve this optimum mix and then maintain it. A short term view of the direction of the markets may influence where in the range the Head of Treasury decides to operate.

4.5 Variable rate includes borrowing linked to LIBOR, Clearing Bank Base Rate, or Building Societies' Base Rate. Fixed rate interest includes borrowing in relation to which the interest rate has been fixed, and the remaining period is in excess of 12 months.

4.6 In managing bpha's interest rate, inflation and covenant breach risk in line with the above, the Head of Treasury will pay due regard to the following:

- the impact on the Statement of Comprehensive Income of expected movements in interest rate and inflation
- the current term structure of interest rates and its forward market implications
- current interest rates and breakeven inflation implied by the forward markets, compared with historic trends and actual inflation
- expected future trend movements
- Policy and/or budgetary implications
- Financial Reporting requirements, existing and proposed
- The cost of cancelling any hedging arrangement

Surplus funds

4.7 Given the relative size of bpha's debt, together with the fact that borrowing costs are generally higher than investment returns (in credit risk free or nearly credit risk free, short term deposits), the investment management strategy of the treasury department should be to maintain on demand cash deposits at the minimum level consistent with the liquidity management policy. bpha will, therefore:

- Utilise surplus funds to pay down revolving credit facilities
- Place surplus funds either with a counterparty from which bpha has currently borrowed money (ensuring the deposit is with the same legal entity as the debt) or with sterling denominated money market funds, to

the extent of the limits set out in 4.16 below

- allocate funds within counterparty credit policy and liquidity policy guidelines so as to maximise returns
- prepay debt whenever investments are expected to exceed the requirements of the liquidity management policy for a prolonged period of time, and it is economically beneficial to do so
- where funds are required to meet maturing borrowings, place deposits matching the anticipated maturity as closely as possible.

Use of derivative instruments

4.8 To manage the mix of fixed, variable and inflation-linked debt, bpha will use a combination of:

- Stand-alone derivatives outside loan agreements (subject to bpha's Rules)
- Swaps within loan agreements, provided that the loan contains suitable contractual formulae for the valuation of unwinds

and should ensure that there is an economic relationship between the hedged item and the hedging instrument.

4.9 bpha will only use derivatives for managing interest rate risk and not for speculative purposes. All derivative transactions will be subject to standard ISDA documentation, taking care to ensure that the schedules and credit support annex contain appropriate terms, e.g. covenants not more onerous than those on the loans and a suitable security threshold.

4.10 Stand-alone derivatives can consume security if the market moves in an adverse direction. For this reason, the Head of Treasury will monitor the mark to market value of derivatives, and ensure sufficient security is available to meet any requirements.

4.11 bpha shall have the power to enter into and perform a swap transaction, or series of swap transactions, where the entry into such transaction(s) is considered to be in the best interest of bpha. "Swap transaction" has the meaning given in the definition of "swap transaction" appearing in the 2006 ISDA Definitions i.e. a rate swap transaction, basis swap, forward rate transaction, interest rate cap transaction, interest rate floor transaction, interest rate collar transaction, or any other similar transaction, including an option transaction, and for the avoidance of doubt shall include a retail prices (or other published index) transaction and any contract for differences.

4.12 Counterparties will be required to confirm transactions in writing to bpha. The Treasury back office will be responsible for reconciling them with the front office's records.

Covenant compliance

4.13 The Head of Treasury will include within the asset & liability register details summarising any contractual financial covenants, and will retain copies of all relevant contracts for reference and audit.

4.14 bpha will only undertake any action requiring a lender's consent or covenant waiver, when in receipt of written consent or a formal waiver letter.

Cashflow basis/timing mismatch

4.15 bpha will endeavour to maintain a "simple" (i.e. avoiding, whenever possible, inflows not matched by outflows) portfolio of fixed, floating and inflation-linked debt unless it is economically advantageous to do otherwise

Counterparty Credit Risk Management

4.16 The following criteria apply:

Counter-party	Min credit rating from S&P/Moodys/Fitch	Max term	Max Peak Exposure Amount per Counter-party	Other
Short term deposits	Short term – one of A1/P1/F1 AND Long term – one of A/A2/A	1 year	£10m	bpha's clearing bank to have unlimited exposure, but only if necessary. Deposits with lenders are limited to the higher of £10m (provided the rating requirements are met) and the principal outstanding on the loan (no rating requirement).
Sterling denominated money market funds	Long term AAA – one such rating required		Unlimited	Regard shall be had to the size of the fund, the maturity profile, exposure to significant individual investments and other liquidity risks in determining the extent of bpha's investment
UK Government Gilts	n/a		Unlimited	Investment is permitted in UK Government issued gilts that have only a short period to maturity (not >1year)
Loans for liquidity purposes	Short term – one of A1/P1/F1 AND Long term – one of A-/A3/A-	N/a	N/a	

Approved Counterparties for Derivative Financial Instruments

4.17 In the case of embedded swaps with counterparties who are also funders of bpha and where bpha is not required to post security collateral, counterparty risk is not considered to be a significant issue. In the case of stand-alone derivative transactions under ISDA arrangements bpha will consider potential counterparties for according to their financial strength, as measured by their credit ratings. bpha will spread risk in relation to derivatives across a portfolio of counterparties.

4.18 bpha will maintain two lists of potential counterparties, List A and list B, which reflect different levels of counterparty financial strength and set limits on bpha's counterparty exposure.

The following will be eligible for Derivative Counterparty List A:

4.19 Banks and Building Societies authorised by the Financial Conduct Authority (or EEA authorised through the FCA's passport scheme) and other corporate bodies which meet at least two of the following three conditions:

i. have a long term rating of AA- or higher from Standard and Poor's
ii. have a long term rating of AA- or higher from Fitch
iii. have a long term rating of Aa3 or higher from Moody's

4.20 Pension funds, insurers and non-financial corporate bodies with an internal long term rating equivalent or higher than AA- from Standard and Poor's or Aa2 from Moody's (pension funds and insurers do not have ratings, and will need to be assessed on a case by case basis)

4.21 In relation to Counterparty List A, before entering any new derivative transaction, bpha will consider aggregate nominal exposure to the proposed counterparty and this aggregate exposure inclusive of the proposed transaction should not exceed £50m without prior agreement of the Finance & Treasury Committee. In the case of existing derivatives there is no obligation to reduce any nominal exposure to £50m.

The following will be eligible for the Derivative Counterparty List B:

4.22 Banks and building societies authorised by the Financial Conduct Authority (or EEA authorised through the FCA's passport scheme) and corporate bodies which meet at least two of the following three conditions:

i. have a long term rating of A- or higher from Standard and Poor's
ii. have a long term rating of A- or higher from Fitch
iii. have a long term rating of A3 or higher from Moody's

4.23 Pension funds, insurers and non-financial corporate bodies with an internal long term rating equivalent or higher than A- from Standard and Poor's or A2 from Moody's.

4.24 In relation to Counterparty List B, before entering any new derivative transaction, bpha will consider aggregate nominal exposure to the proposed counterparty and this aggregate exposure inclusive of the proposed transaction should not exceed £25m without prior agreement of the Finance & Treasury Committee. In the case of existing derivatives there is no obligation to reduce any nominal exposure to £25m.

4.25 The above measure of the credit exposure for each counterparty will be measured by way of simulation analysis taking the '5% peak credit exposure' through time for the portfolio of stand-alone derivatives with that counterparty or an alternative derivative marked to market exposure projection/simulation model.

4.26 If possible, bpha will spread transactions over a number of financial institutions at a level appropriate to their efficient management.

4.27 The Head of Treasury will monitor the credit quality of all counterparties. If the credit rating of a counterparty is downgraded below the minimum requirement or there is a rating review with a view to such a downgrading then this will be reported to the bpha Board on an exception basis with appropriate recommendations, which might include proposals to unwind the derivative transaction.

4.28 Derivatives contracts may be of long maturity. For this reason, bpha should be prepared to unwind or request novation of the derivative if the credit quality of the counterparty deteriorates beyond an acceptable level.

4.29 Overall exposure to a counterparty is not necessarily the sum of peak credit exposure calculations for each of the transactions with that counterparty. For example, a fixed to floating swap and a floating to fixed swap could have the same individual exposures, but because they work in opposite directions, the net exposure to the counterparty will approximate to zero if the swaps have similar duration.

5 REFINANCING RISK MANAGEMENT

5.1 The Head of Treasury will carry out an annual review of all ISDA schedules, loan and related documentation to evaluate whether the documents are still acceptable to bpha's corporate objectives and the current market. This review will focus on interest rate comparisons that take into account the total economic value, and will evaluate alternatives by comparing net present values at bpha's cost of new funds expressed as a spread over the swap curve.

5.2 bpha will aim to ensure that no more than 10% of debt matures in any 12 month period over the next five years unless replacement finance has been arranged.

5.3 If more than 10% of debt matures in any 12 month period over the next five years then this must be detailed either in the Quarterly Treasury Report or in a report by the Chief Financial Officer to the FTC.

APPENDIX 2: APPROVED INSTRUMENTS, METHODS & TECHNIQUES

1 CAPITAL FINANCE

1.1 The Head of Treasury, by way of delegated authority from the Chief Financial Officer is responsible for and oversees all funding activities on behalf of bpha. No commitment to enter into new funding facilities may be entered into without the specific approval of the bpha Board. The Board has determined that the FTC is to consider, scrutinise and constructively challenge any new funding prior to being presented to Board for approval and may delegate authority to approve specific matters to FTC.

1.2 When considering whether to commit to borrowing funds, the Head of Treasury will consider the following information:

- In the case of committed undrawn facilities which are to be used for calculating available liquidity, the proposed lender(s) credit ratings and track record in the social housing market.
- The interest bases permitted under the proposed facility.
- The lender's interest rate margin.
- Details of commitment, arrangement, and other fees, legal costs, valuation fees etc.
- The all-in-cost of the financing proposals, converted into a spread over the swap curve, to guarantee that all quotes have the same common denominator to enable comparisons.
- Financial covenant requirements and any other restrictive undertakings required together with an assessment of bpha's ability to comply therewith.
- Security arrangements.
- Comparison with other offers.
- Arrangements for drawing funds.

2 APPROPRIATE METHODS OF FUNDING

2.1 bpha may borrow by means of overdraft, revolving credit facilities, money market facilities, term loans, commercial paper, bonds and other capital market debt, securitisations, notes, recoverables sold or discounted, lease, hire purchase or conditional sale agreement and other sources specifically approved by the bpha Board provided that such borrowing is within agreed risk appetite.

3 TERMS AND CONDITIONS OF CAPITAL FINANCE

3.1 It is the Chief Financial Officer's responsibility to ensure that all borrowing is executed on the best commercial terms possible. It is the Head of Treasury's responsibility to advise the Chief Financial Officer concerning such terms.

3.2 bpha will seek to maintain minimum levels of covenant compliance in excess of the levels imposed by its loan agreements at all times. Anticipated levels of compliance and internally set compliance targets will form an integral element of the Annual Treasury Plan.

3.3 bpha will endeavour to ensure that its borrowing arrangements permit maximum flexibility to release and substitute charged assets and will grant floating charges on an exceptions basis only.

3.4 bpha will endeavour to ensure that provisions for the calculation of the unwind of fixings and the prepayment of loans with existing fixings will include two-way break clauses calculated in an objective manner (e.g. by reference to market quotation methods in the event that the parties fail to agree the unwind value).

3.5 bpha will endeavour to ensure that any derivative transactions embedded in a loan may be novated to another counterparty and/or that they may be transferred to a stand-alone ISDA agreement should the loan be repaid, refinanced or it becomes economically advantageous to do so.

4 INVESTMENT

4.1 Subject to the limits and credit criteria specified in Appendix 1, bpha may invest surplus funds in the following approved instruments:

- Short term deposits
- Money market funds
- Certificates of Deposit or Bills of Exchange issued by authorised institutions
- UK Treasury Bills, UK Government bonds and repurchase agreements (repos) / reverse repos in UK Government securities

4.2 Any other investments, such as corporate bonds for example when required as part of a bond issue, will require the specific approval either of the bpha Board or, if delegated, of the FTC.

APPENDIX 3: REPORTING AND MANAGEMENT INFORMATION REQUIREMENTS

1 ANNUAL TREASURY PLAN (ATP)

1.1 The Head of Treasury will prepare for the bpha Board an Annual Treasury Plan (ATP). This will set out bpha's aims and objectives as they apply to treasury management for the following year.

1.2 The ATP authorises the Chief Financial Officer (and as appropriate may delegate to the Head of Treasury) to enter the hedging transactions contemplated by it, without further approval of the bpha Board. The Chief Financial Officer (and as appropriate may delegate to the Head of Treasury) is also expressly authorised to make borrowings from bpha's committed facilities in line with the total borrowing requirements forecast by the approved Business Plan. The Chief Financial Officer's obligation is to act within the terms of the Treasury Management Policy, and report transactions to either FTC or to the bpha Board, in accordance with their respective Terms of Reference.

1.3 The ATP shall contain such financial and other relevant data that the Chief Financial Officer considers is necessary for the FTC / Board to understand bpha's planned treasury activities. It is noted that the Annual Business Plan contains many treasury details, including projected borrowings, covenant compliance and sensitivity analyses, which otherwise may have been presented in the ATP.

1.4 In preparing the ATP, the Head of Treasury will pay regard to the following:

- achievement of bpha's financial strategy and operational plan
- ensuring that bpha has sufficient cash resources available to meet both its long term and planned short term needs
- Ensuring that bpha 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.

2 ANNUAL TREASURY REPORT (ATR)

2.1 The Head of Treasury will also submit an Annual Treasury Report (ATR) to the FTC who will make this available to the Board. The Report will cover 12 months of the treasury operation and include final annual measures of performance. 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 ATR will summarise the Quarterly Treasury Reports, other matters reported to FTC and/or Board during the year and any other matters necessary for a full understanding of treasury activities.

3 QUARTERLY TREASURY REPORT (QTR)

3.1 The Head of Treasury will deliver a report to bpha's funders, with a copy to bpha's Board meeting immediately following the end of each financial quarter detailing the following:

- an analysis of current borrowings, including the fixed, variable, and inflation linked debt mix
- an analysis of financial covenant compliance
- an analysis of current investments
- commentary on the outcome of treasury operations for the quarter just ended
- cashflow compared to budget and an explanation of variations
- a statement of interest rate risk management transactions during the preceding financial quarter

3.2 The Head of Treasury will deliver a report to the FTC meeting that follows each quarter end detailing the following:

- Commentary on progress towards achievement of the ATP and any recommended adjustments thereto
- Revisions to the current 12 month cash flow forecast
- A review of interest rate trends and the impact on the current ATP and any revenue effect

- Any recommended adjustments to the current interest rate risk management policy contained in the ATP
- the mark to market position relating to any derivative transactions, together with the security utilisation exposure by counterparty
- the mark to market position relating to any derivative transactions
- for counterparties with whom bpha have derivative transactions, the level of excess security subsequent to loan asset cover requirements and capacity to meet current and potential derivative transaction security exposures
- any matters where the Treasury Management Policy or ATP have not been complied with

APPENDIX 4: TREASURY AUTHORISATION LIMITS

1 INTEREST RATE MANAGEMENT (HEDGING)

1.1 bpha are required to hedge between 50% and 100% of drawn debt against adverse movements in interest rates. The target level to be achieved will be presented annually in the ATP.

1.2 Any new counterparty for hedging purposes has to be approved either directly by the Board or by the FTC under authority delegated by the Board.

1.3 Any new master agreement under the standard International Swaps & Derivatives Association (ISDA) terms has to be considered and approved either directly by the Board or by the FTC under authority delegated by the Board.

1.4 In relation to any new interest rate hedge, subject to;

- The counterparty having been previously approved by the Board / FTC; and
- The interest hedge remaining within the defined limits; and
- A business case for the hedge having been presented by the Head of Treasury to the Chief Financial Officer, and approved by the Executive Leadership Team

1.5 then any two out of the following four officers, Chief Executive, Chief Financial Officer, Head of Treasury and Company Secretary may commit bpha to the hedging arrangement.

2 FUNDING POLICY

2.1 To enter into any funding agreement:

- A business case and supporting documents have to be presented to the FTC by the Chief Financial Officer or Head of Treasury who have to consider, scrutinise and constructively challenge these, and to report to Board, in accordance with FTC's Terms of Reference;
- The funding documents have to be considered by bpha's legal advisors who must report thereon; and
- The bpha Board must approve the agreement.

2.2 At all times bpha should aim to maintain two years of expected net development expenditure ("**facility headroom**") within un-utilised but committed funding facilities, such figure to take account of cash deposits and short term liquid deposits/investments. It is recognised that at any time the facility headroom will vary according to the timing of arrangement of new facilities and the pattern of expenditure. Facility headroom must not fall below 12 months of expected net development expenditure and any shortfall must be reported monthly to the bpha Board together with a plan for remedial action.

2.3 At all times bpha should aim to maintain sufficient **security headroom** which is the sum of cash on deposit plus fully secured but undrawn facilities, to cover the sum of 12 months expected net development expenditure and the additional security required to meet the '5% worst case' margin call outcome of a simulation analysis or an alternative derivative marked to market exposure projection/simulation model. Security headroom must not fall below the sum of 6 months expected net development expenditure and the 5% worst case margin call position or an alternative derivative market to market exposure projection/simulation model. The Finance and Treasury Committee will monitor the facility and security headroom and any shortfall will be reported monthly to the bpha Board together with a plan for remedial action.

3 INVESTMENT CRITERIA

3.1 An Independent Financial Review ("IFR") must be conducted on any investment, including property acquisition and development, where the expected expenditure is £5m or more. Development sites undertaken in multiple phases shall be considered in aggregate for the purpose of this £5m limit. Any Executive Board Director or the

Head of Treasury can request that an IFR is produced in respect of any investment which falls below the £5m limit. The results and conclusions of the IFR are to be documented in writing.

3.2 The detailed work to be undertaken within an IFR, and the information to be documented, is to be determined by the Chief Financial Officer and Head of Treasury. The IFR process and documentation required is to be written down, and may be amended as required, but do not form part of these Treasury Authorisation Limits. However, the IFR is likely to include consideration of the risks in relation to the proposed investment in comparison to bpha's defined risk appetite, a check upon the mathematics of the Internal Rate of Return ("IRR"), payback period and Statement of Comprehensive Income impact and consideration of the underlying assumptions to ensure that these are reasonable and appropriate together with providing assurance that the business has the funding capacity to undertake the proposed investment.

3.3 The IRR calculation, for the purpose of considering whether the hurdle rate has been cleared, should ignore the impact of the contribution from potential future stair-casing on shared ownership properties.

3.4 The methodology for determining the 'base' hurdle rate to be used will be:

i. the expected new long-term cost of debt (calculated through the sum of the 30 year gilt yield and expected achievable credit margin)
ii. multiplied by the tightest interest cover covenant
iii. plus a suitable risk buffer.

3.5 The risk buffer to be applied is to be agreed with FTC as part of the approval of the ATP.

3.6 For example, if the 30 year gilt yield is 3.5%, the expected credit margin achieved 1.5% and the tightest interest cover 110%, and the FTC felt a risk buffer of 10% was appropriate, the hurdle rate to be applied would be calculated as follows: IRR Hurdle = [(3.5% + 1.5%) x 110%] x 10% = 6.05%.

3.7 The base hurdle rate, calculated in accordance with the above methodology, is to be presented annually to the FTC within the ATP and is to be approved by the Board.

3.8 The hurdle rates, that is to say the minimum acceptable IRR, for investments are as follows:

- General Needs = base hurdle rate as above
- Investment in any for profit development activity = base hurdle rate + commercial risk premium. To be considered on case by case basis but premium expected to be at least 10%
- Other investments = to be approved by Board on a case by case basis
- Care Homes and Extra Care Schemes = each home or scheme to be considered on a case by case basis due to the risk profile of individual homes or schemes varying enormously

3.9 Where a scheme is subsidised by means other than capital grant / RCGF / DPF, such as through capacity generated from re-letting as affordable rent, then the scheme's IRR must be calculated pre-subsidy and post-subsidy. The IRR post-subsidy must meet the hurdle rates set out in 3.7.

3.10 Consideration of any investment should include an assessment of the security efficiency of the investment, that is to say how the security value generated compares with the cash expenditure necessary to acquire the investment.

3.11 Any investment which requires an IFR should be put before the Board Executive Directors (BEDs) sign off meeting in the first instance before being referred to the Development Committee for review and recommendation and ultimately to the bpha Board for approval. If an individual project does not meet the hurdle rate it would not normally be brought to the Board for approval, unless there are exceptional strategic or other reasons for doing so.

4 TREASURY TEAM AUTHORITY TO CARRY OUT TRANSACTIONS

4.1 All treasury transactions are contractual obligations through Board approved loan and funding agreements. As such there is a requirement for an efficient authorisation and settlement process to ensure that these obligations are met in a timely manner and reduce the risk of non-compliance.

4.2 The familiarity with loan obligations including payment requirements means that Treasury are best placed to authorise treasury related transactions.

4.3 Therefore there will be a separate expenditure code for treasury transactions with the following authorisation limits:

Transaction Category	Spend Level	No of People to Authorise	Authoriser A	Authoriser B
A	Over £5m	2	Head of Treasury	CFO or if not available Main Board Director or Company Secretary
B	£1m-£5m	2	Treasurer / Corporate Finance Manager	Head of Treasury
C	£25k-£1m	2	Treasury Analyst	Treasurer / Corporate Finance Manager
D	Under £25k	1	Treasury Analyst	N/A

4.4 The requirement for a Level 1 >£5m ensures that any material change to loan position will still have to be approved by the CFO, ensuring control is retained at the executive level.

4.5 Charging of security against debt facilities is a routine part of treasury operations necessary to facilitate drawdown of funding under debt facilities previously approved by the Board and as such does not need further specific authority. The Board / FTC maintain oversight through the regular reporting detailed elsewhere in this policy.

APPENDIX 5: TREASURY KEY PERFORMANCE INDICATORS

1 INTRODUCTION

1.1 The treasury function does not tend to lend itself to easily measurable performance indicators. By its nature, treasury's role is to protect and enable the rest of the business; yet exogenous events can greatly influence treasury outcomes – therefore measurement of the performance of the treasury team will take account of such factors.

1.2 This paper explores bpha's approach to measuring treasury performance. bpha believe that a 'rules' approach can only lead so far, and that it is appropriate to consider the questions / challenges against which the performance of the treasury function may be judged.

1.3 It is appropriate for the Chief Financial Officer to recommend to Board, and for the Board to approve annually, the measures to be applied to assess the performance of the Treasury team and it is recognised that these will change from year to year to reflect bpha's business circumstances in the wider economic environment.

1.4 Each of the sub-sections below sets out likely criteria / activities / tests that may be undertaken to test the performance of the treasury team.

2 KEY PERFORMANCE INDICATORS: CHECKLIST FOR AN ANNUAL REVIEW

Purpose

- Does the treasury function have a clearly defined purpose?

Business Planning and Budgeting

- Has the capacity of the business for future development been tested under varying grant, rental income, interest rate, and inflation scenarios?
- Has the probability of covenant breach been tested under macroeconomic scenarios?
- Are business plan macroeconomic assumptions based on market expectations?
- Have actual macroeconomic conditions been reflected in business plan scenario testing?
- Were actual macroeconomic conditions captured within the scenarios modelled at the start of the business planning period?
- Have the differences between budget and outturn been identified and adequately explained?
- What steps have been taken to improve budgetary forecasts for the next planning period?
- Are pension risks incorporated in the business plan?

Execution

- Were competitive prices sought at all reasonable opportunities?
- Have transaction costs been calculated and recorded?
- Are transaction costs reasonable, e.g. relative to historic transaction costs / peers?

Cash and Liquidity

- Has a strategic decision been made, within the period, in relation to the target balance between risk and return in the cash and investment portfolio?
- What criteria, beyond the Treasury Management Policy Statement, have been used to evaluate counterparty risk (e.g. CDS, equity prices, news), and do these reflect the strategic intent (as above)?

- Are contingency plans in place to allow the business to move cash balances at short notice, and have these been tested on a regular basis?

Funding and Security

- Does the business have a plan for securing future funding well in advance of its expected deployment, and an associated timetable?
- Are there opportunities to generate economic savings through refinancing and have these been implemented?
- Does the business have a target credit rating and is performance against it monitored?
- Is there a contingency plan in the event that the expected funding route is not successful?
- Has the business made financial commitments where funding has not already been secured?
- Is the business prepared for adverse valuations?
- Is there a security charging strategy?
- Are the valuations of non-charged assets adequate for the security strategy?
- What is the lead time between assets being constructed / built and the availability of the documentation in preparation for charging?

Compliance and Reporting

- Has the Treasury Management Policy been complied with (e.g. in relation to treasury reporting)?
- Have areas of non-compliance been reported promptly?
- Have all loan facility covenants and other requirements been met?
- If loan facility covenants and other requirements have been breached, were they expected?
- Have all regulatory returns been submitted promptly and accurately?

Interest Rate and Inflation Risk Management

- Has the derivative portfolio been subject to on-going (a) monitoring and (b) review?
- Has cash been used as collateral to meet mark-to-market exposures?
- Has the 5% worst case mark-to-market position or an alternative derivative marked to market exposure projection/simulation been analysed, and are there appropriate contingency plans in place to address this?
- Has the interest cost met budget expectations and have any material variances been analysed and satisfactorily explained?

Investment Appraisal

- Have investment appraisal methodologies been reviewed and benchmarked against competitors and peers?