

Stockport Homes Group

One team, transforming lives

Stockport Homes Group Treasury Management Strategy 2022-2027

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1 INTRODUCTION

- 1.1 The purpose of this strategy is to set out Stockport Homes Group's (SHG) approach to Treasury Management, and the key Treasury Management objectives over the next five years.
- 1.2 The previous Treasury Management Strategy was approved by the Stockport Homes Board in September 2019. The previous Treasury Management Strategy covered a three-year period, which has been extended to five years in the latest strategy as the Group has become more embedded. SHG's treasury structure remains relatively uncomplicated as SHG does not place any bonds, or lend through external commercial borrowing. Any significant changes will be reviewed in the annual treasury performance report, which captures an update on SHG's strategy and plan for the coming year.
- 1.3 The Strategy for 2022-27 will build on the previous themes to ensure the Group as a whole has a modern framework for assessing cash flows and making investment decisions that supports regulatory compliance and maximises resources. This will involve further developing sophisticated stress testing scenarios to ensure that liquidity is maintained throughout the Group, as well as identifying available resources for potential further investment, along with key pressures and risks which could affect this position. This will continue to support the preparation for becoming a large Registered Provider and the additional regulation this brings.

2 TREASURY MANAGEMENT PRINCIPLES

- 2.1 SHG follow the CIPFA Treasury Management Code as recognised good practice. This Code is supported by the Chartered Institute of Housing as being suitable for adoption by ALMO's and Registered Providers of social housing, and provides a framework for effective treasury management.
- 2.2 In line with this Code, SHG follow the three principles of treasury management below:
 - SHG defines Treasury Management as: the management of the Group's investments and cash flows, its banking, borrowing and investment transactions, the effective control of the risks associated with these activities, and the pursuit of optimum performance consistent with those risks.
 - SHG 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.
 - SHG acknowledges that effective treasury management will provide support towards the achievement of its business objectives. It is therefore committed to the principles of achieving value for money in treasury management and to be employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

- 2.3 Where external borrowing is utilised to support the financing of the Group's housing development programme, SHG's approach is to utilise the loan facility provided by the Council which provides a number of benefits. These capital repayment, fixed rate loans, provide cost certainty and favourable interest rates, and do not result in a refinancing risk. Furthermore, the loans through the Council's loan facility are not subject to financial ratio based loan covenants, and hence allow SHG flexibility in determining its appetite for investment via borrowing.
- 2.4 SHG seeks to utilise its available resources to obtain the best returns, within its risk management framework. Where cash investments are made, these short term deposits are controlled via the Treasury Management Practices contained at Appendix 1. Investment for longer term gains are subject to rigorous financial appraisal and controlled through the existing financial control framework.

3 BACKGROUND AND CONTEXT

- 3.1 The financial operating environment has changed substantially since the previous Treasury Management Strategy was approved, with significant growth realised within SHG and wider economic changes seen. The key changes include:
- Economic impacts of Brexit and Covid-19, including significant price inflation, materials and labour shortages, and recent increases in interest rates from historic lows
 - Increasing the rolling loan facility with the Council to £91.9m to support the delivery of the approved Development Strategy
 - New build has continued at pace despite delays in the construction market, with the total net book value held as new build properties increasing from £52m to £88m and forecast to rise to in excess of £130m over the life of this strategy
 - Clarity of cash flow forecasting supporting the use of available internal cash resources for the development of outright sales units at Hempshaw Lane and Melford Rd
 - Changes in the Council loan agreements which now accrue interest costs from loan drawdown
 - Gift Aid payments within SHG supporting financial efficiency
 - SHG's continued growth including the insourcing of gas servicing and electrical testing, and investment in Project Phoenix and Digitalisation
- 3.2 This strategy recognises that the successful growth and ongoing financial health of SHG can only be delivered through intelligent investment decisions, taking calculated risks, expanding successful operations to bring cash resources into the Group, diligent financial management through long term cash flow forecasts, and robust cost benefit evaluations of investment decisions.

- 3.3 The aim of this strategy is to ensure that SHG optimises the use of its Treasury Management function to support the achievement of organisational objectives over the next five years within a controlled framework that supports regulatory compliance.
- 3.4 The Strategy will achieve this via the themes outlined below, and the adherence to a rigorous set of Treasury Management Practices (TMP's) that are included at Appendix one.

4 TREASURY MANAGEMENT STRATEGIC OBJECTIVES

- 4.1 The strategy to support the Group over the next five years will focus on seven main strategic objectives, set out below:

Strategic Objective One

Ensure access to sufficient liquidity for each member of SHG

To operate as a going concern each SHG member must have cash resources available to be able to meet its liabilities as they become due. As Group complexities grow, and economic uncertainty remains, this will become even more important.

High Level Action	Outcome
Robust and regular cash flow monitoring and reporting of each Group member	Ensuring that cash is effectively managed across the Group and available cash resources or pressures are clear
Management of external debtors and creditors to optimise working capital	Optimal use of cash resources for each company
Undertake regular review of minimum retained cash balances for each company to ensure they are aligned with business objectives and risks	Ensure sufficient cash resources are in place to achieve organisational objectives
Regular review of inter-company debtor and creditor arrangements to optimise use of the Group's cash resources	Ensuring that cash is effectively managed across the Group and that the benefits of operating in a Group structure are realised

Strategic Objective Two

Enable intelligent and informed strategic decision making for investments

It is recognised that as the Group continues to grow, so will its financial complexity, and it is critical that accurate financial information is available if investment decisions are to be taken in a controlled but enabling environment.

High Level Action	Outcome
Robust and regular cash flow monitoring and reporting of each Group member	Maximise resources through informed decision making by highlighting available cash resources and pressures
Stress test cash flows against a range of scenarios linked to Group members risk registers	Compliance with the Regulator's Governance and Viability Standard. Identify key risks to achievement of objectives and mitigating actions
Continue to support investment proposals through financial analysis	Maximise resources through informed decision making by determining the optimum method of financing investments
Monitor the headroom within the development loan facility against the development pipeline, and review the total facility if required, to enable delivery of future developments	Compliance with the Regulator's Governance and Viability Standard, ensuring that SHG has sufficient liquidity to meet its commitments, particularly with regards to sufficient cash/borrowing to finance Development expenditure. Support the delivery of the Development strategy through delivering new housing resulting in increased long-term financial strength

Strategic Objective Three

Optimise returns on available resources

To operate effectively, SHG must be aware of its available cash resources and utilise these to help achieve its corporate objectives.

High Level Action	Outcome
Invest available cash resources and maximise returns by ensuring the best interest rates are taken advantage of	Maximise resources through informed decision making
Review banking provider offer	Ensure VFM of day to day banking arrangements
Continue to support investment proposals through financial analysis	Maximise resources through informed decision making by determining the optimum method of financing investments

Identify available cash resources to support maximising gift aid opportunities	Financial efficiency within the Group and support viability of services within SHL
Monitor development cash flows and co-ordinate with available cash resources to defer loan drawdowns to minimise development period interest costs	Maximise resources through minimising loan interest costs

Strategic Objective Four

Ensure robust risk management and financial controls underpin the approach to Treasury Management

As the Treasury Management function manages the Group's cash resources, it is critical that robust and effective controls are in place. The TMP's included at Appendix One provide the high level control framework which will be operated.

High Level Action	Outcome
Regular review of the financial control framework and TMP's, including internal audit review	Robust and effective controls are in operation
Stress test cash flows against a range of scenarios linked to Group members risk registers	Compliance with the Regulator's Governance and Viability Standard. Identify key risks to achievement of objectives and mitigating actions
Ensure loan covenants are complied with	Compliance with the Regulator's Governance and Viability Standard, ensuring that SHG monitors, reports on and complies with the Council's loan covenants.
Undertake regular review of minimum retained cash balances for each company to ensure they are aligned with business objectives and risks	Ensure sufficient cash resources are in place to achieve organisational objectives

Strategic Objective Five

Optimise the use of borrowing and use of internal resources

Effective treasury management includes balancing the use of borrowing and internal resources. As borrowing facilities and internal resources are limited, potential returns from investments should be clearly understood to maximise the benefits from available cash resources.

High Level Action	Outcome
Review the financing decision for each investment to ensure the optimal mix of borrowing and internal resources	Unnecessary borrowing is not undertaken and returns are maximised
Robust and regular cash flow monitoring and reporting of each Group member	Clear visibility over available internal resources. Payback from using internal resources is understood to ensure resources are available as required in the longer term
Monitor available borrowing rates to ensure interest costs are minimised, including assessing refinancing opportunities	Optimised resources, through ensuring excessive interest costs are not incurred

Strategic Objective Six

SHG's leaders will have strategic financial awareness and the right level of understanding to support compliant and enabling decision making

The Board and Senior Management must be aware of the strategic financial landscape and key risks, to confidently make financial decisions.

High Level Action	Outcome
Undertake regular review of minimum retained cash balances for each company to ensure they are aligned with business objectives and risks	Ensure sufficient cash resources are in place to achieve organisational objectives
Robust and regular cash flow monitoring and reporting of each Group member	Visibility over available cash resources and pressures, along with the assumptions used
Agree the suite of stress testing scenarios of cash flows with the Board and Senior Management	Awareness of what combined measures would lead to cash difficulties for SHG, key risks and mitigating actions

Strategic Objective Seven

Ensure Regulatory Compliance

The Board and Senior Management must be aware of the Regulator's Governance and Viability Standard, to confidently ensure SHG is compliant with the standards.

High Level Action	Outcome
Stress test cash flows against a range of scenarios linked to Group members risk registers	Compliance with the Regulator's Governance and Viability Standard. Identify key risks to achievement of objectives and mitigating actions
Monitor the headroom within the development loan facility against the development pipeline, and review the total facility if required, to enable delivery of future developments	Compliance with the Regulator's Governance and Viability Standard, ensuring that SHG has sufficient liquidity to meet its commitments, particularly with regards to sufficient cash/borrowing to finance Development expenditure. Support the delivery of the Development strategy through delivering new housing resulting in increased long-term financial strength
Stress test cash flows against a range of scenarios linked to Group members risk registers	Compliance with the Regulator's Governance and Viability Standard. Identify key risks to achievement of objectives and mitigating actions
Ensure loan covenants are complied with	Compliance with the Regulator's Governance and Viability Standard, ensuring that SHG monitors, reports on and complies with the Council's loan covenants.

5 TREASURY MANAGEMENT PRACTICES

- 5.1 The Treasury Management Practices (TMP's) are included at Appendix One. The TMP's form part of SHG's financial control framework and set out a number of key principles followed by the Group based on recognised practice.
- 5.2 The TMP'S are reviewed against the CIPFA 2017 code of practice for Treasury Management in the Public Services. There has been no update to the release in 2017 therefore no changes are required.
- 5.3 The Treasury Management Practices provide a strong foundation to underpin treasury management practices across the Group. These will be regularly reviewed to ensure the latest guidance is in operation.

6 EQUALITY IMPACT ASSESSMENT (EIA)

- 6.1 This strategy covers interaction between all Group Members and any EIA implications will be picked up in the individual Business Plans of each Group member.

7 CONSULTATION

- 7.1 Wider Leadership Team have been consulted on the themes within this strategy.

8 ACTION PLAN

- 8.1 The Treasury Management Strategy action plan is attached at Appendix two. The action plan outlines the work which will be undertaken over the course of the strategy. The action plan will be monitored by Audit and Risk Committee annually.