Drumchapel Housing Co-operative Limited

Treasury Management policy

Approved by the Board November 2024
Latest review date October 2027

Contents

Treasury management policy

1. Introduction

1.1 This treasury management policy is based upon the recommendations of the Code of Practice on Treasury Management (2021 edition) issued by the Chartered Instituteof Public Finance and Accountancy (CIPFA).

1.2 The Code identifies three key principles-

- The Co-operative should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

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

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

1.3 The Co-operative's Financial Regulations include the CIPFA Code recommended clauses in relation to treasury management.

1.4 Overall control of the Co-operative's treasury management rests with the Board. The Co-operative's staff must not operate outside of the guidelines set out in this policy and are accountable at all times to the Board for their actions and decisions.

1.5 It is essential that Board members are aware of and understand the decisions being made by the Co-operative, and what the financial implications of these decisions could be. The Board is responsible for reviewing and monitoring the financial requirements of the Co-operative in compliance with the Scottish Housing Regulator's (SHR) Regulatory Standards of Governance and Financial Management, the Co-operative's financial regulations and procedures, and CIPFA's Code of Practice on Treasury Management. Board members will be briefed and receive appropriate training as requested or required.

2. Treasury management policy statement

2.1 The Co-operative defines its treasury management activities as:

The management of the Co-operative's borrowings, investments and cash flows, its banking, money market and capital market transactions, the effective controlof the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

2.2 The Co-operative regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications.

2.3 The Co-operative 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 employing suitable performance measurement techniques, within the context of effective risk management.

2.4 Taking account of the large cash sums moving in and out of the Co-operative it is important that appropriate treasury management procedures and practices are in place. Treasury management is concerned with making appropriate use of surplus funds whilst meeting the overriding need to protectthe capital sum and, in the case of borrowing, keeping costs to a minimum whilst ensuring the stability of the longer-term financial position.

2.5 The overriding aim of the policy is to ensure that the Co-operative will not be exposed to undue risk. In balancing risk against return, the Co-operative is more concerned to avoid risks than to maximise returns.

2.6 The Co-operative's finances comprise a number of different operations or cost centres. Treasury management allows the organisation to deal with the combined position of each cost centre within the Co-operative in the most advantageous way. All of the Co-operative's funds should be aggregated for treasury management purposes.

2.7 The Co-operative's treasury management policy will be reviewed every three years or sooner, and its system for ensuring effective compliance will be subject to regular review and at least on an annual basis.

2.8 The Co-operative will review its treasury strategy at least on an annual basis.

3. Regulatory Standards of Governance and Financial Management

3.1 The SHR's Regulatory Standards and guidance which govern treasury management activities have been taken into account and in particular:

- *RS3.1: The RSL has effective financial and treasury management controls and procedures, to achieve the right balance between costs and outcomes. The RSL ensures security of assets, the proper use of public and private funds, and access to sufficient liquidity at all times.*

- *RS 3.2: The governing body fully understands the implications of the treasury management strategy it adopts, ensures this is in the best interests of the RSL and that it understands the associated risks*

- *RS 3.5: The RSL monitors, reports on and complies with any covenants it has agreed with funders. The governing body assesses the risks of these not being complied with and takes appropriate action to mitigate and manage them*

3.2 SHR guidance (August 2015) contains the regulatory expectation that an RSL will comply with the CIPFA Code.

4. Equality and diversity

4.1 Through its equality and diversity policy, the Co-operative aims to promote the commitment to zero tolerance of unfair treatment or discrimination and to ensure that no person, group of persons or organisation who deal with the Co-operative in any way or who requires a service, assistance or advice from the Co-operative, or who is employed by (or serves) in any capacity by the Co-operative is treated less favourably than any other person, group of persons or organisation.

4.2 As part of our commitment to ensuring equal opportunities for all, the Co-operative has installed an induction loop system in the reception area, interview rooms and boardroom. Where a need is identified, all written information can be provided in Braille; larger font; translated into an alternative language; or on CD where data is converted to voice. In this regard, we can make this policy available in an alternative format on request.

4.3 In accordance with the equality and diversity policy, the Co-operative has applied a screening process to determine whether this policy should be subject to an equality impact assessment. This assessment has indicated that it is not required in this instance.

5. Risk management

5.1 In considering risk management the Co-operative will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability of this policy and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Co-operative's objectives as set out in this policy.

5.2 The CIPFA Code of Practice details some of the key risks faced by a registered social landlord's treasury operations and those considered relevantto the Co-operative's operations are set out in this section.

5.3 The Co-operative has considered the potential risks facing it should the treasury management procedures fail to be adhered to. Material additional interest costs or other charges and costs (potentially via loan covenant or condition breaches) could arise from the failure to follow these procedures properly. Should it be deemed that the Co-operative is not complying with the conditions contained within this document, the Regulator may comment adversely on such matters. This could have an adverse effect on confidence in the Co-operative by lenders, other partners and members.

5.4 In order to minimise the risk, the Co-operative ensures the treasury management procedures are reviewed regularly and that all personnel are aware of their contribution to compliance and to the efficient and effective running of the Co-operative. Furthermore, methods of validation and ensuring probity include an annual external audit, regular internal audit, reports to members and to the Scottish Housing Regulator.

5.5 The main areas of borrowing risk are:-

a) Interest rate risks

Interest rate risk exposure arises when a change in interest rates has the potential to affect the value of an RSL's assets and liabilities. Too much variable rate debt could mean increasing interest rates result in higher interest payments and repayment costs; conversely, too much fixed debt could result in opportunity losses because the Co-operative cannot benefit from improving rates.

The main danger of interest rate risk is that the Co-operative could face liquidity problems servicing debt as well as breaching lenders' covenantson interest cover percentages.

Inflation risk can impact on the Co-operative's treasury management activities through the link with interest rate management. If the rate of inflation increases less than forecast while fixed rate loan costs remain stable, there can be a real cost to the Co-operative in terms of low inflation.

An appropriate hedging strategy will assist in minimising any adverseeffects caused by increases in interest rates.

b) Liquidity risk

This risk is where the Co-operative has insufficient cash to meet its liabilities as they fall due. In this respect the Co-operative will ensure thatit has adequate, though not excessive, cash resources and borrowing arrangements at all times as are necessary for the achievement of its business objectives.

The use of regular cash flow projections, together with appropriatemonitoring, will assist in reducing this risk.

The Co-operative will at all times have sufficient funds available equivalent to a minimum of 6 months average expenditure (excluding component spend) cash cover, except as otherwise agreed by the Co-operative for a specific reason.

c) Funding and refinancing risk

This is the risk that loans falling due which the Co-operative does not have the cash resources to repay cannot be replaced at an acceptable cost. In addition, funding risk can cover overdependence on one lender in the market.

The use of cash flow projections, a mix of funders, appropriate records on loan maturities and advance discussion with funders shall assist in minimising this risk.

d) Failure of internal control systems

The risk of inadequate systems of control, reporting and performance measurement is not specific to treasury management. The Co-operative is required to ensure that measures are in place to manage its overall exposure to risk in this area. This would include the risk of exposure to fraud, error and corruption. Accordingly, the Co-operative will employ suitable systems and procedures and will maintain effective contingency management arrangements.

Regular reviews of financial practices and internal audits will contribute towards reducing the potential for such risks.

e) Soft covenants

It must be borne in mind that a loan agreement can be broken not just by a breach of covenants, but also by failing to meet deadlines, clauses or by failing to provide documentary evidence as required. It is now usual for companies to set up a calendar with all loan requirements and trigger dates for compliance such as insurance schedules, 5-year stock condition survey, annual valuation, annual covenant workings, financial accounts and quarterly returns.

The introduction of a check list for compliance with loan conditions should avoid such risks materialising.

5.6 The main areas of investment risk are:-

a) Risk of default by an institution

This can occur where funds are deposited in a financial institution and are subsequently defaulted upon. This risk would previously have been regarded as low given the regulation of this area by the Prudential Regulation Authority (PRA, replacing FSA) and Bank of England, but an increased awareness is required given all issues attached to the current economic climate.

The Co-operative regards a key objective of its treasury management activities to be the security of the principal sum it invests, and the regular review of market data and commentaries and credit rating information will assist in negating such risks.

The above is notwithstanding the Financial Services Compensation Scheme which would protect deposits of up to £85,000 with any one lender (subject to qualification criteria being met).

b) Funds are invested for too long a term and liabilities fall due

This is where funds are invested in, say, a six-month no access account and liabilities fall due by the Co-operative which requires these funds to settle.

The inclusion of accurate detailed cash-flow projections within the annual budget document, quarterly cash flow updates with the management accounts, appropriate budget monitoring and the regular updating of the long-term projections should assist in limiting this risk.

5.7 General treasury risk considerations:-

a) Legal and regulatory risk

The risk that the Co-operative itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Co-operative suffers losses accordingly.

Legal advice, where appropriate, and regular monitoring of regulatory advice and guidance will both assist in reducing this risk.

The Co-operative recognises that future legislative changes may impact on its treasury management activities and, as far as it is reasonably able to do so, will seek to minimise the risks of these impacting adversely on the organisation.

6. Treasury management approach

6.1 Responsibilities

a) Responsibility for implementing this policy on a day-to-day basis rests with the staff team; the Board monitors compliance via Board reports and other documents being presented to them.

b) Only the Board has the authority to commit the Co-operative to borrowing facilities or to vary any existing loan documentation. The Board must understand the risks and obligations they undertake when entering into new loan arrangements. There must be an appreciation of any "new" lending conditions, how these compare to current loan terms and theireffect on the business going forward.

c) The Director, in consultation with the finance agent, will be responsible for making recommendations to the Board on borrowing and financing decisions.

d) Operational responsibilities relating to existing day-to-day loan arrangements and deposits are delegated to the Director in conjunction with the finance agent. This includes ensuring compliance with loan covenant and information requirements.

e) It is recognised that the Director may have to execute a decision quickly in relation to fixed interest or deposit opportunities, with no time available to refer the matter for Board consideration. In all such instances, the Director will submit a written report to the next available Board meeting.

f) The Board will oversee the overall risk approach by the Co-operative to ensure it remains up to date and relevant. The Board will also take all reasonable steps to ensure that day-to-day controls are carried out by staff.

6.2 Approved activities

a) Raising capital finance for capital projects
b) Raising capital finance for stock acquisitions
c) Investment of surplus funds
d) Arrangement of short term overdraft facility
e) Banking facilities

6.3 Approved methods of raising capital finance

a) Borrowing for term loans will normally be on a standard capital and interest basis
b) Appropriate use may be made of capital repayment holidays
c) Borrowing for development or bridging funding may be by overdraft
d) Borrowing may not exceed £20 million in accordance with the Co-operative's rules (Rule 15.1).

6.4 Approved sources of finance

a) The following organisations are approved currently as sources of funding:

- Virgin
- RBS (Natwest Group)
- Bank of Scotland
- Clydesdale Bank
- Santander UK
- CAF Bank
- Nationwide Building Society
- Scottish Government

The above list may be amended, with approval from the Board, if other lenders enter into the market offering loan finance to RSLs on attractiveterms.

b) Before any new lender is added to the approved sources of funding, the Co-operative must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the Director in conjunction with the finance agent, and, where appropriate, a suitably qualified external Financial Investment Adviser. A written report will be submitted to the Board advising of any request for a new institution to be added to the above list.

c) The Co-operative will not enter into any derivative transactions and will not borrow funds denominated in a foreign currency.

d) The Co-operative will not enter into any loan transactions that are index linked.

e) The Co-operative will not enter into hedging arrangements that are regarded as being of a sophisticated nature.

6.5 <u>Interest rate exposure</u>

a) It is recommended good practice that RSLs ensure an appropriate mix of fixed and variable rate finance is in place. There are no hard and fast rules about what constitutes an appropriate mix – it depends on the ~~and~~ RSL’s individual circumstances and the rates available when funding is being sought. The current position at Drumchapel is that approximately one third of borrowing is fixed – this works with the Co-operative’s cashflow and is considered appropriate. Any changes to borrowing (including loan restructuring) would be subject to a paper with recommendations to help the Board identify the right option for the Co- operative at the time.

b) Any fixed rate arrangements should also consider the maturity of fixed interest loans over periods ranging from 5 to 25 years subject to no major variations in rates being achieved over the different interest periods.

c) The potential for material breakage costs on any fixed rate arrangements, which would arise if the Co-operative decides to ‘break’ the agreed fix, will be considered as a part of the decision-making process.

d) The annual treasury management report should contain information on current interest rate trends for the short, medium and longer term.

6.6 Approved organisations for investment

a) The following organisations are currently approved for investment purposes:

- UK Government Securities (UK Gilts)
- Bank of Scotland
- Santander UK
- RBS
- The Nationwide Building Society
- Lloyds Bank

The list of approved financial institutions has been shortlisted from theinstitutions with a UK banking licence.

b) Deposits in excess of the Financial Services Compensation Scheme limit (currently £85,000) should only be placed with institutions which have ratings which satisfy certain criteria from at least two of the three recognised credit rating agencies (Moody’s, Fitch and Standard and Poor’s):

- Moody’s - ‘P-1’ - Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

- Fitch - ‘F1’ - Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments.

- Standard & Poor’s – ‘A-1’ - An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's.

The credit worthiness of approved counterparties will be monitored by thefinance agent. Any impairment to the credit worthiness of the approved counterparties will be advised to the Board.

The Co-operative may wish to place funds in an institution which does not currently meet the above criteria to take advantage of favourable deposit rates. Board approval will be required to permit this on a case by case basisand the maximum sum invested at all times must not exceed the aforementioned FSCS limit.

c) Sensible judgement should prevail in deciding whether to immediately remove the Co-operative's funds from fixed-term or notice deposit accounts (if it is possible to do so prematurely) of an approved deposit- taker should its credit ratings fall below the minimum criteria set out above.Funds should be removed, at the very latest, at the end of the fixed-term (should it continue to fail to satisfy the minimum criteria at that time), or immediate notice should be given.

d) Credit ratings will be a key source of information but it is important to recognise that they have their limitations. The Co-operative should also make use of generally available market information including quality financial press, market data and information on government support for banks.

e) If information becomes available which causes concern as to the deposit-taker's ability to meet its financial commitments, regardless of its credit ratings, the Co-operative should take all possible steps to repatriate its funds and place them with an institution it considers to be safer.

f) Before any investment is made with a new organisation, the Co-operative must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the Director in conjunction with the finance agent and, where appropriate, a suitably qualified external Financial Investment Adviser. A written report will be submitted to the Board requesting that this new organisation be added to the above list.

g) In order to reduce risk, no more than 50% of the surplus funds (ie excluding working capital) should be placed with one institution. The Co-operative will therefore aim to diversify its investments so as to avoid holding too much with any one institution. However, it is recognised that the availability of competitive interest rates may result in more funds being invested with certain institutions which may sometimes exceed 50% of surplus funds.

h) The Co-operative will not deposit funds denominated in foreign currency.

i) The Co-operative will monitor the detail of the Financial Services Compensation Scheme or such similar schemes which may offer a degree of protection of funds.

6.7 Reporting

a) A report will be presented to the Board at least once a year on treasury management operations.

b) The annual report on treasury management operations must provide information on the following:

- Details of current lenders
- Loan balances outstanding per lender
- Loan terms
- Expected settlement dates
- Mix of fixed rate and variable rate finance
- Security cover provided, details of ‘excess’ security per lender and basis of valuation
- Valuation update requirements in the year ahead
- Covenant compliance
- Unencumbered stock and indicative valuation
- Future proposed borrowing for the financial year ahead
- Interest earnings from investment of surplus funds
- Forecast cash flows and confirmation of no liquidity or covenant compliance
- Market view of future interest rates over the next 12-36 months
- A review of the approved sources of finance with reasons behind any recommendation(s)
- A review of the approved organisations for investment with reasons behind any recommendation(s)
- Any value for money considerations and benefits attaching to the treasury management function
- Compliance with policy

c) All recommendations to members on borrowing decisions must be provided in a written form and consider the following:

- Borrowing requirements
- Sources
- Basis of interest rates
- Loan margin
- Borrowing period

- Repayment options and costs
- Assessment of documentation (including margin review and early repayment clauses and default clauses)
- Security (including release of security provision)
- Arrangement fees
- Non-utilisation fees
- Draw down arrangements
- Hedging requirements from lender
- The implications of fixed rate arrangements (including breakage costs)
- Changes in existing loan terms
- Fixed/capped rates
- Capital repayment details
- Compliance with policy

The report must contain a recommendation from the Director (and, where appropriate, a suitably qualified Financial Investment Adviser) in consultation with the finance agent and provide costs and terms from all lenders approached.

d) Cash flow projections are considered a sound framework for effective cash management and will be discussed at the Board as appropriate to allow the monitoring of income, deposits and other treasury management issues.

e) All budgets and management accounts must include relevant information in respect of covenant compliance and liquidity.

f) Quarterly management accounts will contain information regarding all cash funds and deposits.

g) The finance agent will prepare loan portfolio returns in accordance with the Scottish Housing Regulator's guidance.

h) The Co-operative may periodically consider the early repayment of loan debt. Any requests to do so must be supported by a written report to the Board whose approval would be required.

7. Operation of treasury management procedures

7.1 The driving principle is that the Director (assisted by the finance agent and other staff) will oversee the day-to-day operation of this policy document so long as activity is in line with the terms of the policy – any deviations must be agreed by the Board.

7.2 Within the above, the following will apply:

- The Finance & Corporate Services Manager will carry out the task of investing surplus funds,taking appropriate advice from the Director (who will consult with thefinance agent).

- Bank balances must be checked daily by the Finance & Corporate Services Manager. In the eventof holidays or other unavoidable reasons for the Senior Finance Officer's absence, the Director will check the daily balances.

- The Co-operative, subject to working capital requirements, will endeavour to maximise the use of bid deposits. In this regard, consideration will be given periodically to rates on offer from approved investment institutions.

- The Director will undertake a regular check on the investment of surplus funds in liaison with the finance agent.

- Requests for deposit rates and funding terms will normally be issued to three approved institutions and information received will be recorded by the Finance & Corporate Services Manager.

- Responsibility for negotiating development project finance lies with the Director who will make appropriate recommendations to the Board. It is noted, however, that the Co-operative is not currently developing.

- The period of borrowing must not normally exceed 30 years

- In selecting an appropriate lender the Co-operative must give consideration to its current loan portfolio in order to ensure an appropriate mix of lenders. It is acceptable that the Co-operative can opt to go with one lender if this represent the correct business decision.

- The Co-operative will obtain legal advice before agreeing loan documentation and no loan or other funding agreements can be entered into without the formal consent of the Board.

- Whilst the Co-operative will seek to minimise the number of units on which security is granted at the outset, the terms of the overall funding package will take precedence.

- The Co-operative must ensure that it has the permission (where required) of existing lenders to borrow additional funds and that any additional borrowing will not breach any existing covenants with existing lenders or increase the Co-operative's risk exposure to a default situation where the lender will recall or re-price existing loan finance.

- The Co-operative reserves the right, if it is considered appropriate, to fund from its own reserves the balance of any scheme costs after deduction of grants, or to make a partial contribution to the overall project.

- The Co-operative will at no time grant any lender a floating charge over its properties.

- The Co-operative will maintain records of stock valuations and will arrange revaluations of stock where required for funding purposes or to comply with loan documentation.

- The finance agent will maintain regular contact with all funders and will ensure provision of up to date and accurate information on the financial status of the Co-operative in a timeous manner.

7.3 The Co-operative must at all times, in carrying out the treasury management function, give consideration to the Rules of the Co-operative, all applicable legislation, its financial regulations and standing orders, all existing loan agreements and guidelines issued by SHR, OSCR, FCA and the Scottish Government as appropriate.

The Finance Agent shall ensure they have access to financial market commentaries and reviews on the likely courses of interest and inflation rates to enable the Co-operative to assess future treasury risks and scenarios and to permit the effective management and control and development of suitable risk management strategies

The Co-operative 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 maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff receive proper awareness training in this respect.

7.4 The Co-operative is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and the treasury management activities will be undertaken with openness & transparency, honesty, integrity and accountability. The Co-operative has adopted and implemented the key principles of the CIPFA Code of Practice. This, together with the other arrangements detailed in this policy, is considered vital to the achievement of proper corporate governance in treasury management.

8. Policy review

8.1 This policy will be reviewed every three years, or more frequently in line with changes to legal, regulatory and best practice requirements. The next review will take place no later than October 2027.

9. UK General Data Protection Regulations (UK GDPR) Privacy Statement

9.1 The Co-operative will gather and use certain information about individuals in accordance with UK GDPR. Staff members have a responsibility to ensure compliance with the terms of the privacy policy and to collect, handle and store personal information in accordance with relevant legislation. The Fair Processing Notice (FPN) details how personal data is held and processed with third parties in accordance with relevant policies and procedures.