



# RCH Group Policy: Treasury Management

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|----------------|------------------------------------|
| Policy Owner   | Executive Director, Group Services |
| Policy Manager | Head of Finance and IT             |
| Approval Body  | Board                              |
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This policy is available, on request, in different languages and in other formats such as large print, audio format and braille as required.

## 1. Scope

- 1.1 This is a Group policy and therefore applies to Staff, Board and Committee members of The RCH Group of companies. As at November 2022, The RCH Group consists of River Clyde Homes and its subsidiary, Home Fix Scotland Ltd.

## 2. Introduction

- 2.1 RCH Group recognises that its purpose is the acquisition, development, provision, and management of social housing. The prime objectives of the Treasury Management Policy will be the provision of the financial resources necessary to achieve RCH Group's purposes and the management of the associated risks, organisational and financial, which might threaten its ability to do so.
- 2.2 In all treasury management matters, RCH Group is risk averse whilst allowing the group to grow and diversify its operations within agreed financial parameters. Its strategy, policy and procedures shall be structured to minimise exposure to risks that could jeopardise the security or value of its assets.
- 2.3 This policy sets out the way we will borrow and invest money in line with best practice and guidance.
- 2.4 Although not strictly legislation, it is incumbent on all organisations to ensure that proper stewardship is in place and adequately monitored. Therefore, the framework adopted by RCH Group draws upon the good practice guidance that has been published by relevant organisations to ensure that proper stewardship can be maintained:
- i. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. This code of practice on treasury management is a document that, if complied with, should assist in maximising potential benefit while ensuring regulatory compliance and minimising risk.
  - ii. The Scottish Housing Regulator Standards of Governance and Financial Management (Standard 4.5) require that RSLs manage their resources to ensure financial wellbeing and publish Annual Assurance Statement confirming how they met standard. Their Business Planning Recommended Practise states that each RSL should be able to demonstrate how it complies with the CIPFA code.
  - iii. The Scottish Federal Housing Association (SFHA) Treasury Management Guidance 2022.
- 2.5 This policy requires to be read in conjunction with:
- i. Financial Regulations
  - ii. Value for Money Strategy
  - iii. Standing Orders, Delegations and Governance Code
  - iv. Articles of Association

- v. Anti-Fraud, Bribery and Corruption
- vi. RCH Group business plan and 30-year financial plan

### **3. Definitions**

- 3.1 Board – includes the RCH Group Board, Subsidiary Board(s) and Sub Committees.
- 3.2 Board Member – includes Members of the RCH Board, Subsidiary Board(s) and Sub Committees. It includes co-optees, Executive Directors and any other nominee whether they enjoy voting rights.
- 3.3 ‘Staff Member’ and ‘Staff’ – includes the RCH Group paid staff and any other persons fulfilling the role of a paid employee, such as those employed by an agency or on secondment from another organisation.
- 3.4 Counterparties – institutions such as banks
- 3.5 Capital market – a financial market where participants can issue new debt or buy and sell debt instruments

### **4. Policy Statement and Responsibilities**

- 4.1 The policy is approved and adopted as part of the organisation’s rules, standing orders or financial regulations, and will be reviewed on a regular basis.
- 4.2 RCH Group defines its treasury management activities as “The management of RCH Group’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance consistent with those risks”.
- 4.3 RCH Group regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 4.4 RCH Group acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 4.5 RCH Group has adopted and implemented the key recommendations of the CIPFA’s Code of Practice on Treasury Management. This together with the other arrangements detailed in this policy are considered vital to the achievement of proper governance in treasury management and the Director of Group Services will monitor and, when necessary, report on the effectiveness of these arrangements.

- 4.6 RCH Group will create and maintain, as the cornerstones for effective treasury management:
- i. A treasury management policy statement, stating the policies and objectives of its treasury management activities; and
  - ii. Suitable treasury management procedures (“TMPs”), setting out the way the Organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.
- 4.7 RCH Group delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Director, Group Services and Chief Executive and for the execution and administration of treasury management decisions to the Executive Director, Group Services, who will act in accordance with RCH Group’s policy statement and TMPs.

## 5. Practices

### 5.1 Risk Management:

- i. **General Statement** – The Executive Director, Group Services 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 thereof, and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Organisation’s objectives in this respect, all in accordance with the Organisation’s Procedures. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are as set out in the Treasury procedures.
- ii. **Liquidity** – RCH Group will ensure through detailed cash flow forecasting that it has enough immediate funds (free cash and secured undrawn debt capacity) to meet its cash requirements for the next 12 months, over and above a minimum cash balance of £500k. RCH Group does not have an arranged overdraft facility.

As part of financial planning, “Golden Rules” will be set around liquidity to ensure adequate cash balances and sufficient headroom (Appendix A).

A 12-month weekly cashflow is produced to align with the approved business plan. A detailed weekly forecast for the immediate next 4 weeks is maintained. These detailed cashflow requirements will be used to identify the size and timing of cash requirements to ensure cash can be made available as required.

Grants from the Scottish Government will be used for their defined purpose and in priority to drawing down interest bearing loans.

- iii. **Interest Rates and Inflation** – RCH Group will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the

amounts provided in its budgetary arrangements as amended in accordance with the Reporting requirements and management information arrangements.

RCH Group will manage its exposure to fluctuations in interest rates to minimise any detrimental impact on its budgeted expenditure/income levels.

The effects of varying levels of inflation, in so far as they can be identified as impacting directly on RCH Group's treasury management activities, will be controlled as an integral part of its strategy for managing its overall exposure to inflation.

RCH Group will achieve these objectives by the prudent use of its approved financing and investment instruments, methods, and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining enough degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates or inflation. The above is subject, at all times, to the consideration and, if required, approval of any policy or budgetary implications.

- iv. **Credit and Counterparty** – RCH Group regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in the Treasury Procedures.
- v. **Refinancing** – RCH Group will ensure that its borrowing, private financing, and partnership 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 RCH Group as can reasonably be achieved in the light of market conditions prevailing at the time.

RCH Group will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over reliance on any source of funding if this might jeopardise achievement of the above.

- vi. **Legal and Regulator** – RCH Group will ensure that all its treasury management activities comply with its statutory powers and Regulator requirements.

RCH Group 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 RCH Group.

- vii. Fraud, Error, Corruption, and Contingency** – RCH Group will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
- viii. Market** – RCH Group will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect against the effects of such fluctuations.
- ix. Adequacy of Security** – RCH Group will ensure that procedures are in place to ensure adequate security is available to facilitate drawdown when required.
- x. Covenant Compliance** - RCH Group will ensure that financial covenant set by its lenders are always met. As part of financial planning, an appropriate set of “Golden Rules” will be set on all covenants. Any risk to compliance with any covenant will be highlighted to the Board and funders at the earliest opportunity. Appendix A details RCH Group’s current covenant requirements from its lenders and “Golden Rules”.

## 5.2 Golden Rules:

Golden Rules is the term used to describe the key financial ratios that RCH Group will seek to maintain to ensure that our treasury management activity is effective, by providing adequate liquidity, appropriate management of risks and proper compliance with loan covenants.

Golden Rules are set for each loan covenant, key financial targets and performance measured quarterly. Their purpose is to alert management and Board to potential issues, under performance or non-compliance before it becomes critical. Appendix A detail RCH Group’s Golden Rules.

## 5.3 Value for Money and Performance Management:

RCH Group is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the 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.

5.4 Decision-Making and Analysis:

RCH Group 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 considered at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Treasury Policy.

5.5 Approved Instruments, Methods and Techniques:

RCH Group will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Procedures, and within the limits and parameters defined the Risk Management section above.

5.6 Organisation, Clarity and Segregation of Responsibilities; Dealing Arrangements:

RCH Group 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 optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly about the execution and transmission of funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

If RCH Group intends, because of lack of resources or other circumstances, to depart from these principles, the Executive Director, Group Services will ensure that the reasons are properly reported in accordance with Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.

The Executive Director, Group Services will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The



Executive Director, Group Services will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the Treasury Procedures.

The delegations to the Executive Director, Group Services in respect of treasury management are set out in the Treasury Procedure.

RCH Group Board holds ultimate responsibility for all treasury activities and nominates the Audit and Risk Committee to be responsible for ensuring effective scrutiny of the Treasury Management policy. All executive decisions on borrowing, investment or financing are delegated to the Executive Director, Group Services and set out in the Treasury Procedure. The Executive Director, Group Services will fulfil all such responsibilities in accordance with the Organisation's Treasury Policy Statement.

#### 5.7 Reporting Requirements and Management Information Arrangements:

The Organisation 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, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Audit & Risk Committee will receive:

- i. An annual report on the strategy and plan to be pursued in the coming year.
- ii. Reporting on the performance of the treasury management function will be a standing agenda item at each Audit and Risk Committee, reporting any instances of non-compliance with the Organisation's treasury management policy statement, and including confirmation of covenant compliance will be included within the financial monitoring statement.

The present arrangements and the form of these reports are detailed in the Organisation's Treasury Procedures.

If there is a breach of the treasury management policy, The Executive Director, Group Services will report this to the Audit and Risk Committee (and/or Board) as soon as is practically possible. Depending on the severity of the breach, there may be a requirement for The Executive Director, Group Services to inform the Board out with of the regular meeting cycle and arrange a special meeting if appropriate.

#### 5.8 Budgeting, Accounting and Audit Arrangements:

RCH Group 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.

RCH Group 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.

#### 5.9 Cash and Cashflow Management:

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Organisation will be under the control of the Executive Director, Group Services and will be segregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Executive Director, Group Services will ensure that these are adequate for the purposes of monitoring compliance with the Risk Management (section 5.1).

#### 5.10 Money Laundering:

RCH Group 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 involved in this are properly trained. The present arrangements, including the name of the person to whom reports should be made, are detailed in the Treasury Procedures.

#### 5.11 Training and Qualifications:

RCH Group 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. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The Executive Director, Group Services will recommend and implement the necessary arrangements. The present arrangements are detailed in the Treasury Procedures.

#### 5.12 Use of External Service Providers:

RCH Group recognises the potential value of employing external providers of treasury management services, to acquire access to

specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

#### 5.13 Corporate Governance:

RCH Group 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 its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

RCH Group has adopted and has implemented the key recommendations of the CIPFA Code. This, together with other arrangements detailed in the Treasury Procedures are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Director, Group Services will monitor and, when necessary, report upon the effectiveness of these arrangements.

## 6. Equality Impact Assessment

- 6.1 The RCH Group will apply this policy fairly and consistently. In implementing this policy, we will not directly or indirectly discriminate against any person or group of people because of their race, religion or belief, gender, disability, age, sexual orientation, or any other grounds. Our commitment to equality and fairness will apply irrespective of factors such as age, disability, gender reassignment, marital or civil partnership status, pregnancy or maternity, race, religion or belief, sex, sexual orientation, or other personal attributes.

## 7. Review

- 7.1 This policy will be reviewed in its entirety every 3 years, unless an earlier review is required due to changes in legal, regulatory, or best practice requirements, or because monitoring and reporting reveals that a change in policy is required sooner.

## Appendix A – Financial Covenants and Key Financial Measures

| Covenant                          | Definition                   | Royal Bank of Scotland  | Nationwide                           | Golden Rule |
|-----------------------------------|------------------------------|---|--------------------------------------|-------------|
| Interest cover – EBITDA (minimum) | As defined in Loan Agreement | 1.5 times   | 1.5 times                            | 1.6 times   |
| Gearing (maximum)                 | As defined in Loan Agreement | 50%   | 45% (years 1 to 3)<br>50% thereafter | 42%         |
| Asset Cover (minimum)             | As defined in Loan Agreement | 110% transferred stock (EUV-SH)<br>125% new build stock (MV-ST) | 125% (EUV-SH)                        | 130%        |

| Description                         | Definition   | How Measured   | Golden Rule           |
|-------------------------------------|--|--|-----------------------|
| Short Term Liquidity (minimum)      | Short term operational liquidity, which will ensure that sufficient liquidity is maintained to meet short term funding needs                           | Projected lowest level in next 3 months                              | £1m                   |
| Capital Funding Liquidity (minimum) | Capital Funding Liquidity, which will ensure that sufficient liquidity is maintained to fund projected commitments for 24 months from the current date | Project lowest level in next 24 months                               | £5m                   |
| Fixed and Variable Borrowing        | Proportions of loans on fixed and variable terms.  | 'Variable' includes fixed arrangements which expire within 12 months | At least 60% Fixed    |
| Total Peak Debt (maximum)           | All projected borrowing less any cash balances held.   | Projected peak debt within 30-year financial plan                    | 90% of loan portfolio |
| Intragroup On-Lending Limit         | Includes investments in subsidiaries, financial support, guarantees,   | Values of Investment   | £2m                   |