



Group Policy: Treasury Management Policy

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Contents

Scope	3
Policy Statement	3
Terminology	4
Policy Principles	4
A. Risk Management.....	5
B. Value for Money and Performance Measurement.....	7
C. Decision-Making and Analysis	7
D. Approved Instruments, Methods And Techniques	7
E. Organisation, Clarity and Segregation of Responsibilities, Dealing Arrangements	7
F. Reporting Requirements and Management Information Arrangements	8
G. Budgeting, Accounting and Audit Arrangements.....	8
H. Cash and Cash Flow Management.....	9
I. Money Laundering.....	9
J. Staff Training and Qualifications	9
K. Use of External Service Providers	9
L. Corporate Governance	9
Review	10
Context	10
Supporting Documents / Policies.....	10
Ownership and Responsibility for Implementation	10
Key Stakeholders	11
Related Legislation.....	11
Equalities Impact Assessment	11
Appendix A - Financial Covenants as at October 2019	12

Scope

This is a Group policy and therefore applies to Staff, Board and Committee members of The RCH Group of companies. As at October 2019, The RCH Group consists of River Clyde Homes and its subsidiary Home Fix Scotland Ltd.

As appropriate, RCH Group will ensure the promotion of equal opportunities by publishing information and documentation in different languages and other formats such as large print, audio format and braille as required.

Policy Statement

Purpose

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.

In all treasury management matters RCH Group is risk averse whilst allowing the group to grow and diversify its operations within agreed financial parameter. Its strategy, policy and procedures shall be structured to minimise exposure to risks that could jeopardise the security or value of its assets.

This policy sets out the way we will borrow and invest money in line with best practice and guidance.

Policy Statement

- 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.
- 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".
- 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.
- 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.

- 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 Resources & Transformation will monitor and, when necessary, report on the effectiveness of these arrangements.
- RCH Group will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies and objectives of its treasury management activities; and
 - 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.
- RCH Group delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Director, Resources & Transformation and Chief Executive and for the execution and administration of treasury management decisions to the Executive Director, Resources & Transformation, who will act in accordance with RCH Group's policy statement and TMPs.

Terminology

- Board – includes the RCH Board, Subsidiary Board(s) and Sub Committees.
- 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.
- '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.
- Counterparties – institutions such as banks
- Capital market – a financial market where participants can issue new debt or buy and sell debt instruments

Policy Principles

A. Risk Management

i. General Statement

The Executive Director, Resources & Transformation 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 Risk Management

RCH Group will ensure through detailed cash flow forecasting that it has enough immediate funds (ie 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.

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 also 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 Rate and Inflation Risk Management

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 so as 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 Risk Management

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 Risk Management

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 Regulatory Risk Management

RCH Group will ensure that all of 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 and Corruption, and Contingency Management

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 Risk Management

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 met at all time. 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.

B. Value for Money and Performance Measurement

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.

C. 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.

D. 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.

E. 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, Resources & Transformation 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, Resources & Transformation 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, Resources & Transformation 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, Resources & Transformation in respect of treasury management are set out in the Treasury Procedure.

RCH Group's Audit & Risk Committee holds ultimate responsibility for treasury policies and activities. All executive decisions on borrowing, investment or financing are delegated to the Executive Director, Resources & Transformation and set out in the Treasury Procedure. The Executive Director, Resources & Transformation will fulfil all such responsibilities in accordance with the Organisation's Treasury Policy Statement.

F. 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:

- An annual report on the strategy and plan to be pursued in the coming year.
- Regular reporting on the performance of the treasury management function, 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.

G. 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.

H. Cash and Cash Flow 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, Resources & Transformation 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, Resources & Transformation will ensure that these are adequate for the purposes of monitoring compliance with the Risk Management section above.

I. 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.

J. Staff 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, Resources & Transformation will recommend and implement the necessary arrangements. The present arrangements are detailed in the Treasury Procedures.

K. 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 also 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.

L. 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 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, Resources & Transformation will monitor and, when necessary, report upon the effectiveness of these arrangements.

Review

This policy will be reviewed every three years unless amendment is prompted by a change in legislation or monitoring and reporting reveals that a change in Policy is required sooner.

Context

Supporting Documents / Policies

- RCH Group has adopted the key recommendations of Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross – Sectoral Guidance Notes (2017 Edition)
- RCH Group acknowledges the regulatory guidance on treasury management set out in the Scottish Housing Regulators Treasury Management Recommended Practice August 2015 and will comply with the guidance.
- Financial Regulations
- Scheme of Delegation
- Standing Orders
- RCH Group business plan and 30-year financial plan

Ownership and Responsibility for Implementation

The owner of this policy is Richard Turnock (Executive Director, Resources & Transformation).

Those responsible for implementing this policy are:

- The Board and Audit & Risk Committee have overall responsibility for RCH Group's funding and investment strategy and the approach to managing financial risk. They do this via a variety of mechanisms, eg approval of Group business plan, setting of Treasury Management Policy, appointment of Group Chief Executive (who appoints

other senior officers, eg the Executive Director, Resources & Transformation) and delegation of duties to execute policy objectives

- Director of Resource & Transformation is the owner of this policy
- Head of Finance & Legal Services, Finance & Procurement Manager and Finance staff have responsibility for implementation this policy

The Group Standing Orders detail the authority levels for all treasury transactions

Key Stakeholders

The Board, The Committees, Staff, The Regulator

Related Legislation

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.

- The CIPFA code of practice on treasury management is a document that, if complied with, seeks to ensure that treasury management is conducted on a controlled and risk adverse basis. The document provides guidance on effective treasury management.
- The Scottish Housing Regulator has published Treasury Management Recommended Practice in August 2015 and details provisions similar to the CIPFA code of practice on Treasury Management.

RCH Group will meet all legal obligations and comply with legislation in relation to this policy subject.

Equalities Impact Assessment

An EIA has been undertaken and all relevant requirements have been met

Appendix A - Financial Covenants as at October 2019

Covenant	Royal Bank of Scotland	Nationwide
Interest cover – EBITDA	1.75 times (between Apr 19 and Mar 20) 1.85 times (between Apr 20 and Mar 21) 2.0 times (between Apr 21 and Mar 22)	1.1 times (between Apr 17 and Mar 20)
Interest cover – EBITDA MRI	1.1 times (from Apr 22)	1.1 times (from Apr 20)
Gearing maximum	50%	50%
Maximum Investment Spend	£72m (between Apr 17 and Mar 22)	£49.5m (between Apr 17 and Mar 20)
Asset Cover	110% transferred stock (EUV-SH) 125% new build stock (MV-ST)	125% (EUV-SH) to Mar 20 110% (EUV-SH) from Apr 20
Maximum Debt per Unit	N/A	£20,000