Treasury Management Policy

ROSEHILL HOUSING ASSOCIATION LIMITED
250 Peat Road, Glasgow, G53 6SA

Rosehill Housing Association Limited
Treasury Management Policy

1. Purpose of this Policy

1.1 This Policy describes Rosehill's approach to treasury management.

Treasury Management can be defined as:

> *"the management of an organisation's borrowings, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

2. Policy Objectives

2.1 The Policy is based on the following objectives:

a) To minimise net funding costs, when the value of borrowing exceeds the value of Rosehill's cash and investments;

b) To maximise net returns, when the value of the Rosehill's cash and investments exceeds the value of its borrowings;

c) To ensure that Rosehill has access to sufficient resources to operate its business, and that these funds are available in a timely manner;

d) To protect the value of Rosehill's assets and investments;

e) To ensure that funds are only applied to investments which offer value.

2.2 In addressing these objectives, Rosehill will always adopt a prudent and conservative approach to risk. In practice, there will be a trade-off between the policy objectives described above, and ensuring that Rosehill's risk exposure remains within acceptable limits.

3. Organisational Vision, Values, and Strategic Objectives

3.1 **Our Vision:**

"We will provide excellent quality affordable and efficient homes in neighbourhoods that are well managed and maintained; we will contribute to sustaining communities where people feel safe and want to live by providing housing and other services and working with our voluntary and statutory partners."

Our Values:

Our Core Values are:

We Will

- Invest and Support

We will be

- Engaged and Responsive
- Accountable and Compliant
- Fair and Approachable
- Efficient and Responsible
- Excellent and Committeed

Our Strategic Objectives:

- Provide high quality affordable homes
- Engage effectively with our Tenants and Service Users
- Deliver value for money
- Be innovative and risk aware
- Build and contribute to effective partnerships
- Use resources efficiently and effectively
- Achieve the highest standards in all that we do

4. Organisation and Control

4.1 The role of the Management Committee is to exercise strategic control over Rosehill's treasury management activities.

4.2 The Management Committee's main responsibilities are:

a) To approve the treasury management Policy and decide the overall level of risk that Rosehill is prepared to accept;

b) To approve all new funding facilities;

c) To approve any changes to Rosehill's approved list of deposit takers;

d) To approve any investments that have a term of more than fourteen months or that exceed the limits described in Section 6 of this Policy;

e) To approve any granting of security over Rosehill's assets. The granting of security will be restricted to the financing of Rosehill's development or planned maintenance programme. Security will be granted for no other reason e.g. in relation to staff pensions. At no time will a lender be granted a floating charge over any of Rosehill's properties;

f) To approve any use of financial derivatives or hedging tools.

4.3 Subject to these reserved matters, operational responsibility for all treasury management activities will be delegated to the Finance Manager or any other qualified and competent professional appointed by the Management Committee. The Finance Manager's responsibilities will be carried out in consultation with the Director.

4.4 Operational delegations to staff are subject to the following controls:

a) Drawdown against approved funding facilities must be for approved budgetary purposes;
b) Investment of funds must be restricted to Rosehill's list of approved deposit takers.

If these conditions are not met, the matter shall be referred to the Management Committee by the Director.

4.5 The Management Committee will receive reports as and when required on the matters for which it has direct responsibility. It will also receive an annual report on treasury management activities. The matters addressed in the annual report will include:

a) The rate of return on investments;
b) The weighted average costs of borrowing and lenders' margin on borrowing, benchmarked against other RSLs, previous periods and the Bank of England's base rates;
c) The total value of security held by funders and the value of unencumbered properties, to the date of the last valuation;
d) The most recent credit ratings for approved deposit takers;
e) The mix of fixed and variable borrowing;
f) Average borrowing per property (benchmarked against prior periods and other RSLs); and
g) An assessment of Rosehill's exposure to movements in interest rates.
h) The treasury management strategy for the coming year.

4.6 The Management Committee may request ad-hoc reports on these or any other treasury management matters at any time.

4.7 Loan Covenants will be reported quarterly via the Management Accounts.

5. Treasury Risk Management

5.1 Rosehill has identified its most significant risks as:

a) Movements in interest rates;
b) Insufficient cash being available to meet liabilities as they become due;
c) The loss of funds invested;
d) Applying funds to housing assets where the value of borrowing exceeds the value of the assets, now or at a future date; and
e) Breach of loan conditions.

5.2 Rosehill will apply the following principles and procedures to assess its risk exposure and to identify appropriate methods for mitigating and managing risk.

Interest Rate Management

5.3 Rosehill's exposure to risk will be assessed in three stages.

5.4 Firstly, by examining the impact of an **increase in interest rates**. This will form part of the stress testing and sensitivity analysis carried out as part of the annual business planning process. This assessment will identify Rosehill's net exposure, and will therefore take account of:

- Increases in interest rates;
- Affect on Rosehill's surplus as a result of the higher inflation that is likely to be associated with interest rate increases;
- Growth in interest receivable from Rosehill's cash balances.

5.5 Secondly, by **identifying the nature of the risk**. Interest rates can fall as well as rise, and movements in both directions carry risk.

- Where a loan portfolio is essentially variable, then normally the risk is of a rise in interest rates with increased costs.
- In times of low inflation, having fixed rate loans could mean having to pay a greater amount of interest.

5.6 Thirdly, by **identifying the most effective methods for managing the interest rate exposure** identified at stage one. The options Rosehill may consider include the following:

a) No action, if the assessment is that Rosehill can manage interest rate risks through its current loan portfolio;
b) Use of an appropriate hedging instrument or derivative (for example a fixed rate or swap, a cap or a collar), to minimise risk exposure;
c) Ensuring that Rosehill has an appropriate mix of fixed and variable rate finance in place. It is considered that fixed rate finance of around 80% of NET debt is a suitable mix for Rosehill. This does not restrict Rosehill and may from time to time be reviewed and overridden by Management Committee approval where more preferential terms are available.

5.7 The use of derivatives/hedging instruments will be for the Management Committee to decide, subject to:

a) Obtaining independent advice from a suitably qualified person registered with The Financial Conduct Authority;
b) Rosehill's Rules;
c) Using derivatives for defensive rather than speculative purposes (i.e. to enhance the management of risk);
d) The value being limited by Rosehill's net exposure (i.e. there must be an underlying debt or loan commitment in place for any contract entered into);
e) The use of derivatives/hedging instruments is restricted to Caps, Collars and Interest Rate Swaps;
f) Derivatives must be denominated in Sterling;
g) The counterparty providing the derivative must have a long term credit rating of at least single "A" (Fitch's, Standard and poors, or Moodys long term ratings);
h) The implications and risks of entering into the derivative are fully understood and is in Rosehill's best interest;
i) Derivatives/hedging instruments must be embedded into existing loans and facilities i.e. they cannot be free-standing.

Liquidity Management

5.8 Liquidity management refers to Rosehill having access to cash or funding to meet all of its obligations as these become due.

5.9 The profile and terms of Rosehill's investment and borrowing will be regularly reviewed, to ensure they are consistent with its budgets and longer-term financial plans. Projected cashflows will also be prepared.

5.10 Rosehill will ensure that:

a) Adequate security is or will be available for any borrowing or projected borrowing;
b) Investment appraisals are carried out for all new borrowing;
c) Income and expenditure are aligned as closely as possible, to minimise any need for additional borrowing/finance costs;
d) Consideration is given to using revolver facilities and/or offset facilities, where appropriate, to apply excess cash to repay loans with the option to redraw the funds at a future time if required.

Investment Risk Management

5.11 Rosehill will take measures to reduce the risk that funds might be lost as the result of the insolvency of an institution with which funds have been deposited. These measures are described at Section 7, Investment Criteria.

Asset Risk Management

5.12 The main risks to which Rosehill is exposed are that:

- The value of new housing assets will be less than the level of borrowing used to acquire or develop the asset; and/or
- Future rental income will be insufficient to service the associated debt.

5.13 Rosehill will take the following actions, to reduce these risks:

a) Investment appraisals will be carried out to ensure that there is a reasonable probability of sufficient net income (income less operating expenses) to service the borrowing;
b) Investment appraisals will be based on anticipated actual costs rather than notional allowance figures;
c) Careful consideration will be given to security valuations. If the required borrowing exceeds the "existing use - social rented housing" valuation or if a funder requires cross-collateralisation

or additional security for a development, this will be taken to indicate that the investment required exceeds the underlying value of the asset being acquired or developed.

5.14 The Management Committee may approve any investment which is in excess of the underlying value of the assets involved, but will always do so having given full consideration to the costs and risks involved.

Managing Loan Conditions

5.15 It is vital that Rosehill complies with the requirements of its loan agreements. Failure to do so could result in lenders "repricing" loans, and in the worst case scenario "calling in" loans.

5.16 It should be borne in mind that a loan agreement can be broken, not just by a breach of financial covenants, but also by failing to meet deadlines, clauses or information requirements.

5.17 An annual reporting calendar will be used to trigger deadlines for the submission of management accounts, annual accounts, insurance schedules etc.

6. Borrowing Criteria

6.1 Borrowing will be obtained on the terms which offer best value. In general terms, Rosehill will seek to have facilities in place for long term finance sufficient to meet the needs of its capital programme, where required. The assessment of best value will take account of:

a) The total cost of funding. This includes interest rate margins; arrangement fees; non-utilisation (or commitment) fees; and legal and security costs (including funders' legal costs for both the loan agreement and loan security);
b) Prospective funders' requirements for loan covenants and security;
c) Prospective funders' understanding of and commitment to the social housing sector.

6.2 Rosehill may borrow from the below list of institutions:

a) Banks
b) Building societies

c) UK Local Authorities (Excluding any subject to budget capping)
d) Capital Markets (i.e. Bond finance, private placements, Bilateral loans). This will be in its own name or through aggregator issuers such as The Housing Finance Corporation (a not-for-profit specialist intermediary) and GB Social Housing.

6.3 The loan term should not exceed the expected useful economic life of the asset.

6.4 The borrowing should not exceed the levels permitted by Rosehill's Rules, and any new borrowing should not result in a breach of existing loan covenants.

6.5 New loan agreements should be checked by Rosehill's Solicitors to ensure that Rosehill does not inadvertently sign up to any restrictive clauses that would limit its ability to carry out its aims and objectives.

6.6 Existing borrowing will be reviewed and reported to the Management Committee annually, to confirm that they remain competitive. Reviews will take into account all relevant information regarding the borrowing and reports will contain necessary information as set out in sections 6.7 and 4.5.

6.7 The Finance Manager is responsible for reporting borrowings and performance to the Management Committee. In addition, to reporting requirements under 6.6. The Finance Manager will produce a report analysing any new proposed facilities to the Management Committee for approval for each facility. The report will comprise the following:

a) A summary of the proposed borrowing.
b) Details of the Lender or Arranger, including but not limited to; Their name, their credit rating, the legal and regulatory status.
c) Interest rate structure.
d) Interest rate payable.
e) Arrangement and associated fees.
f) Nature of security.
g) Comparisons, where applicable.
h) Arrangements for drawings.
i) Independent advice received.
j) Covenant requirements and analysis of achievement by Rosehill.
k) Any other information which might assist the Management Committee.

7. Investment criteria

7.1 Rosehill's criteria for investing surplus funds are as follows:

a) The Finance Manager will be responsible for the management of the Associations investment of Cash surplus', in line with the authority set out below. In addition, the Finance Manager will be responsible for assuring adherence to the controls as set out in section 4 of this policy and reporting of performance and the adequacy of those reports.

b) In investing cash surplus, the objective will be to optimise returns and protection of the capital sum. In balancing risk and return. Rosehill will seek to avoid risk as opposed to maximise the return.

c) Surplus funds will be invested overnight or for a term period. Deposits will be minimised where Rosehill have a net borrowing requirement.

d) The following are approved investment instruments for deposit:

Liquid Funds (available in 7 days' notice)

I. Call and other deposits held with Banks, Building societies, and Local Authorities.
II. As noted in item I, those parties whom Rosehill have a borrowing relationship.
III. Money market funds with fund credit ratings of "AAA" (I.e highest credit quality).

Near Liquid Funds (available between 7 days and one month's notice)

Those instruments noted above, plus:

I. Certificates of deposit
II. Loans to local authorities
III. Local Authority bills

Short Term Funds (available within one to twelve months)

Those instruments noted above, plus:

I. UK Government Securities (Bills and Gilts)

e) In all cases, an investment will be documented showing the below and advised to the Management Committee in line with reporting requirements:
    I. Amount
    II. Date of transaction and period
    III. Transaction type
    IV. Counterparty
    V. Interest rate
    VI. Payment terms
    VII. Commission
    VIII. Transmission arrangements
    IX. Sign-off by all parties

f) Rosehill may only invest in counterparties that are set out in section Appendix 1 of this report.

g) Should Rosehill have monies deposited with an organisation that is subsequently removed from the list, the invested sums will be withdrawn from the organisation upon investment maturity.

h) Rosehill's funds, to be invested in the approved counterparty schedule (Appendix 1) Will be restricted to the below terms and any other stipulated in section 4 of this Policy, or by Management Committee override or decision

    I. A Maximum period of 12 months, unless agreed by the Management Committee.
    II. Per organisation (Excluding Sterling Money Market.
        i. This limit is inclusive of all subsidiaries of such organisations.
    III. Funds) a maximum investment limit of £5 million (unless agreed by Management Committee for preferential rates).
    IV. Sterling money market funds require a “AAA” fund rating, or equivalent's principal banker is unlimited.

i) Rosehill will not lend money to members of staff, except through employment conditions and initiatives which form part of their contractual arrangements or by entry to the policy as these become available and are approved by the Management Committee as appropriate.

j) A maximum of 50% of the Rosehill's free cash (Including the net cash requirement for the preceding 12 months or the term of investment, whichever is longest), and the requirements stipulated in sections 4 and section 7.1.H can be placed on deposit at any time, unless approved by the Management Committee.

7.2 The Finance Manager shall be responsible for the day-to-day management of investment, subject to the controls described in Section 4 of the Policy.

8. Equality and Human Rights

8.1 Rosehill's Equality and Human Rights policy (January 2024) outlines our commitment to zero tolerance of unfair treatment or discrimination towards any individuals or group of individuals, particularly those belonging to a protected characteristics (as defined by the Equality Act (2010). This includes ensuring everyone has equal access to information and services, by making copies of all policies available in a variety of alternative formats (i.e. large print, translated, etc.) in response to reasonable requests.

8.2 Rosehill is aware of the potential for policies to inadvertently discriminate against individuals or groups of individuals. To help address this we carry out Equality Impact Assessments (EIA) to help identify any part of a policy that may be discriminatory so this can be addressed (please see Section 9 of our Equality and Human Rights policy for more information).

8.3 As this policy applies equally to all groups, Rosehill (with committee approval) made the decision not to carry out an Equality Impact Assessment on this policy.

9. Data Protection

9.1 On the 25th of May 2018 the legislation governing data protection changed with the introduction of the General Data Protection Regulation (GDPR). Following the UK's exit from the EU, and the end of the transition period which followed, the GDPR formed part of the retained EU law and became the UK GDPR which together with the Data Protection Act 2018 constitute the UK's data protection legislation.

10. Risk Management

10.1 In all key areas of our business we need to consider any risks which may arise. To this end we have in place a robust Risk Management Policy and from these flows to our Risk Register. We have identified our "Top 5" risks which are regularly monitored by our Management Team and Audit Sub-Committee.

10.2 To ensure we continue to manage the associated risks we will periodically review this policy to ensure compliance with all legislative requirements and regulatory and best practice guidance.

11. Guidance and Good Practice

11.1 In preparing this Policy, Rosehill has referred to SHR's Regulation of Social Housing in Scotland: Our Framework (April 2024), Scottish Federation of Housing Associations Treasury Management Guidance (February 2022) and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 Edition).

12. Policy Review

12.1 This policy will be reviewed every 3 years or sooner as required by best practice or legislation.

Approved – January 2025
Next Review – January 2028

Registered Office: 250 Peat Road, Glasgow, G53 6SA
tel **0141 881 0595** • email **admin@rosehillhousing.co.uk**
www.rosehillhousing.co.uk

Registered Scottish Charity, No. SC053776. Company Registration No. SP02220R.
A registered society under the Co-operative and Community Benefit Societies Act 2014 No. 2220R(S) and with The Scottish Housing Regulator (Number HAC174).

List of Approved Deposit Takers

The following organisations are currently approved for investment purposes:

- Lloyds Banking Group, Including Bank of Scotland PLC
- The Royal Bank of Scotland PLC
- Nationwide Building Society
- Santander UK PLC (Banco Santander)
- Barclays Bank PLC
- HSBC Bank PLC
- Clydesdale Bank PLC
- United Trust Bank
- Cazenove Capital
- Instimatch global