Treasury Management Policy

ROSEHILL HOUSING CO-OPERATIVE LIMITED
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Rosehill Housing Co-operative Ltd
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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 Values

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

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; and if rent increases are linked to inflation, low inflation could limit how much income can be raised to service loan repayments.

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 the 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 50% of NET debt is a suitable mix for Rosehill.

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 Long Term Rating or Senior Preferred Rating);
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 A checklist 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. 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 The loan term should not exceed the expected useful economic life of the asset.

6.3 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.

6.4 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.

6.5 The margins on existing borrowing will be reviewed and reported to the Management Committee annually, to confirm that they remain competitive. Reviews will take into account any additional costs that would be involved in re-negotiating borrowing margins.

7. Investment criteria

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

a) All substantial cash balances will be held in interest earning accounts. Only minimal amounts will be held in non-interest bearing or low interest accounts.

b) Funds will only be placed with deposit takers approved by the Management Committee. Rosehill will maintain a list of approved deposit takers for this purpose. Approved deposit takers should all have an acceptable credit rating of at least Single A (Fitch's Long Term Rating or Senior Preferred Rating).

c) Investments will be restricted to interest earning sterling deposits.

d) The best market rates will be sought.

e) The term of any investment will be aligned with Rosehill's cash flow forecasts and requirements.

f) Where possible, Rosehill will place deposits with financial institutions with which it also has a borrowing relationship and where a right of offset exists. This will allow any failure to repay deposits to be offset against any liability Rosehill may have for outstanding loans.

g) Consideration will be given to the use of loan revolver and/or offset facilities for excess cash.

h) A maximum of 30% of the Rosehill's free cash can be placed on deposit with any single institution, unless:
   - Loan revolver facilities are being used; or
   - Funds are to be placed with an institution with which Rosehill has outstanding borrowing in excess of the funds invested.

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 Diversity

8.1 We will ensure that we meet the Equality Act 2010 by being committed to equal and fair treatment for all and opposed to any form of unlawful discrimination. In implementing this Policy, we will provide a fair and equal service to all people. No-one will be treated differently or less favourably than others because of any of the protected characteristics as listed in the Equality Act 2010:

- age
- disability
- gender reassignment
- marriage and civil partnership
- pregnancy and maternity
- race
- religion or belief
- sex
- sexual orientation.

8.2 We are committed to removing any barriers to communication. Therefore, if required, this Policy can be produced in another format e.g. Braille, large print, etc or another language.

9. Data Protection

9.1 On the 25th 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 this flows 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 (February 2012), SHR's Recommended Practice on Treasury Management (August 2015) and CIPFA's Treasury Management in the Public Services:Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition).

12. Policy Review

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

Approved – Sept. 2021
Next Review – Sept. 2024

List of Approved Deposit Takers

The following organisations are currently approved for investment purposes:

- Bank of Scotland
- Nationwide Building Society
- Santander