LISTER HOUSING CO-OPERATIVE LTD

TREASURY MANAGEMENT POLICY including BORROWING STRATEGY

1. INTRODUCTION

1.1 The continuing uncertainty in global financial markets emphasises the importance of treasury management to Lister Housing Co-operative. The Co-operative recognises the importance of cash management and a sound borrowing strategy.

1.2 The Management Committee is aware that the treasury function exists to ensure that its financial assets are safeguarded and financial risks are identified and managed in accordance with the objectives of Lister which include minimising the risk to tenants and protecting its assets. The underlying principle that shapes the Treasury Management policy is that the Management Committee is risk-averse.

1.3 The Treasury Management policy defines the policies and objectives of our treasury management activities. The policy is based upon the recommendations of the Code of Practise on Treasury Management issued by the Chartered Institute of Public Finance Accountancy (CIPFA) - December 2017 Edition.

1.4 The Code identifies three key principles:

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

b) The policies and procedures should make clear that the effective management and control of risk are prime objectives of the Co-operatives treasury management activities and that the responsibility clearly lies within the organisation. The appetite for risk should form 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.

c) 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 practises should reflect this.

1.5 The undernoted Scottish Housing Regulator's Regulatory Standards are those which govern our Treasury Management activities:

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

b) RS3.2 - The governing body fully understands the implications of the treasury management strategy it adopts, ensures that this is in the best interests of the RSL and that it understands the associated risks.

c) RS3.5 - The RSL monitors, reports 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.

In addition the SHR guidance contains the regulatory expectation that an RSL will comply with the CIPFA code.

2. TREASURY MANAGEMENT POLICY STATEMENT

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

The management of the 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.

2.2 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 and reports to Committee members.

3. AREAS OF BORROWING RISK

In general terms, the main areas of borrowing risk are (some or many of these may not affect Lister due to our particular borrowings, or the lack of a current need for borrowing):

3.1 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 means increasing interest rates result in higher interest payments and repayment costs. Conversely, too much fixed debt can 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' covenants on 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 forecasted while fixed rate loan costs remain stable there is a real cost to the Co-operative in terms of low inflation. An appropriate hedging strategy will assist in minimising any adverse effects caused by increases in interest rates.

3.2 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 that it 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 monthly cash flow projections, together with appropriate monitoring, shall assist in reducing this risk. Consider diversification into long and short term investments.

3.3 Funding and refinancing risk

This is the risk that debt may mature and need refinancing when interest rates are higher than the original debt. Regular forecasts of future interest rates should be undertaken, realistically this may be quite difficult over medium to long term. Ensuring that the maturity dates of debt are well spread so that there in not a large proportion of debt due to mature at one time.

3.4 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 and documentation of financial practices and internal audits shall contribute towards reducing the potential for such risks.

3.5 Fraud, error and corruption

This is the risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error or corruption in its treasury management dealings, and fails to employ suitable systems and procedures to those ends. Segregation of duties would involve ensuring that a different person was responsible for carrying out separate activities within a process.

3.6 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. It is now usual for organisations 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 and quarterly returns. The introduction of a check list for compliance with loan conditions, together with comprehensive records of contractual responsibilities and liabilities, should avoid such risks materialising.

4. AREAS OF INVESTMENT RISK The main areas of investment risk are:

4.1 Risk of default by an institution

This is 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 FCA) and Bank of England but an increased awareness is required given all issues attaching 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 shall assist in negating such risks. The Co-operative shall diversify across a number of counterparties with high credit ratings.

4.2 Funds are invested for too long a term and liabilities fall due
This is where funds are invested in say a 6 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.

4.3 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 regulation advice and guidance, shall assist in reducing this risk. Management should be attend seminars and regular training events to receive relevant updates.

The Co-operative recognises that future legislative or regulatory 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.

5. THE MANAGEMENT OF RISK

5.1 Lister Housing 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 reporting of treasury management activities will focus on risk implications for the Co-operative.

5.2 The Co-operative 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 employing suitable performance measurement techniques.

5.3 Lister Housing Co-operative’s treasury management policies will be subject to regular review and the Co-operative has in place a system of effective compliance monitoring and regular reporting to its Management Committee.

6. MANAGEMENT COMMITTEE CONTROL

6.1 The fundamental principle of this policy is that overall control of the Co-operative's treasury management rests with the Management Committee.

6.2 Whilst the day-to-day administration and control will be delegated to the Director of the Co-operative, the contents of this document can only be amended with the approval of the Management Committee.

6.3 Control by the Management Committee will be carried out through the appropriate controls and reporting procedures outlined in this document. Delegated authorities are set out in Appendix A.

6.4 The Management Committee, in delegating the day-to-day operating of this policy, will ensure that the Senior Management involved are suitably qualified to undertake the responsibilities entrusted through both its recruitment and training policies.

6.5 The Management Committee will obtain independent advice from a suitably qualified person, authorised and regulated by the Financial Conduct Authority before entering into any derivatives transactions. At present the co-operative has no plans to invest in derivative transactions.

6.6 The Senior Management of the Co-operative have no delegated authority to commit the Co-operative to loan facilities. Their role is to consider the market and make recommendations. Only the Management Committee has the authority to commit the Co-operative to borrowing facilities.

6.7 The Treasury Management policy will be reviewed every three years by the Management Committee and approved in accordance with financial procedures.

7. GENERAL PRINCIPLES

7.1 The overriding aim of this Policy will be to ensure that at all times the Co-operative will not be exposed to undue risk. This applies equally to both its investment and borrowing strategy.

7.2 The Co-operative will also pursue a policy of maximising the interest it receives on the money it invests and of minimising the interest it pays on money borrowed. These objectives however will be secondary to the policy of minimising risk. The Co-operative will also ensure that a proper system of internal controls exists to safeguard its assets.

7.3 The Co-operative must ensure that at all times value for money is being obtained. This will be achieved by examining all the costs and benefits relating to the decision to be made relating to investment or securing finance.

7.4 In pursuing the above objectives, the Co-operative will restrict its investing and borrowing activities to the list of approved institutions detailed in **Appendix B** and **Appendix C** respectively.

7.5 In following this policy, the Management Committee and the Senior Management of the Co-operative must at all times give consideration to the Rules of the Co-operative, the terms of any current loan agreements, conditions of deposits, the regulations and guidelines of the Scottish Housing Regulator, the Scottish Government, the Financial Conduct Authority, statute and the Law of Scotland.

7.6 The Co-operative will at all times ensure that they have access to sufficient resources to meet their ongoing obligations.

7.7 All deposits shall be linked back to Lister's current account - for flows in and out.

8. APPROVED ACTIVITIES

8.1 The primary investment objective is to optimise returns to the Co-operative while meeting the overriding need to protect its capital.

8.2 The borrowing objective is to keep the cost to a minimum consistent with the need to ensure stability of the Co-operative's longer-term financial position.

8.3 The Rules of the Co-operative allow Lister Housing Co-operative to borrow up to £10,000,000. However, borrowing limits will, in practice, be based on the continued financial strength of the Co-operative, its ability to repay loans, available asset cover and satisfactory loan and covenant terms.

8.4 The Co-operative may enter into risk management arrangements within the framework of existing or future borrowing facilities, including periodic fixing of interest rates and/or arrangements to cap interest rates or create an interest rate collar.

8.5 Investment activity will be restricted to placing money on deposit for a maximum fixed term of 5 years/60 months and investment in UK 'gilt-edged securities' ("gilts" - UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange) which mature within a maximum period of 60 months.

8.6 The Co-operative will not undertake currency risk and accordingly will not borrow or deposit funds denominated in foreign currency.

9. TREASURY MANAGEMENT ANNUAL REVIEW

9.1 The Co-operative's strategy for the application and adherence to its treasury policy will be set out in the treasury management annual review prepared by the Director.

9.2 The annual Treasury Management review will highlight any funding or investment decisions that are required to be made. In addition, detail about compliance with lenders covenant and information requirements will be included.

9.3 The review will comment on the effectiveness of the strategy and any recommendations for change. The performance of the treasury management function will be reviewed based on the effects of the decisions taken and the transactions executed in the last year.

10. INVESTMENT STRATEGY

10.1 The Investment Strategy should initially be approved by the Committee of Management and forms part of the overall strategic plan of the Co-operative. The Strategy will be subject to an ongoing review. To this end, the Management Committee will be supplied on an exception basis with a quarterly report on the activities of the Co-operative from the Director, and also an annual report commenting on the effectiveness of the strategy.

10.2 The day-to-day operation of the Investment Strategy will rest with the Director of the Co-operative. They must, however, be accountable at all times for their actions to the Management Committee.

11. AUTHORISED INVESTMENTS

11.1 In balancing risk against return, the Co-operative is more concerned to avoid risk than to maximise return. The overriding principle guiding the investment of surplus cash is the preservation of the capital value of the Co-operative's resources.

11.2 Deposits should only be placed with institutions which have ratings which satisfy the following criteria:

a. Authorised by the Prudential Regulation Authority (PRA).
b. Regulated by the PRA and the Financial Conduct Authority (FCA).
c. Have Financial Services Compensation Scheme (FSCS) protection.
d. Note must be made that one should not have too many investments in institutions that share the FSCS cover, e.g. Lloyds, Halifax and Bank of Scotland share such cover as they are all part of Lloyds Banking Group.

11.3 The Co-operative's funds will be invested in cash deposits at variable and fixed rates of interest held in UK banks and building societies as detailed in **Appendix B.** Cash may also be invested in gilts for capital security purposes and to achieve a 'risk-free' rate of return. (The Committee is aware that gilt prices are subject to fluctuation but pay a guaranteed price at maturity). Any alteration to the list of authorised institutions for investment purposes can be made only with the approval of the Treasurer of the Management Committee. At present Lister does not invest in Gilts.

11.4 The Director will monitor the credit worthiness of approved deposit-takers, set out at **Appendix B** bearing in mind that a limit of only £85,000 per authorised institution is covered under the terms of the Financial Services Compensation Scheme (FSCS).

11.5 Sensible judgement should prevail in deciding whether to immediately remove the Co-operative's funds from fixed-term or notice deposit accounts (if indeed it is possible to do so prematurely) of an approved deposit-taker listed at **Appendix B**, should its credit ratings fall below industry norms. Certainly, funds should be removed, at the very latest, at the end of the fixed-term or immediate notice should be given.

11.6 Credit ratings are a good 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.

11.7 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.

12. OPERATIONAL LIMITS / EXPOSURE

12.1 Apart from in exceptional circumstances and with the approval of the Management Committee, the maximum investment with any individual financial institution (aside from our current and linked deposit account) should not exceed 40% of total liquid funds.

12.2 The above limit does not apply to gilts. The Co-operative has the ability to fully invest, or as much as practically so, having regard to day-to-day financing and liquidity needs, in gilts (with maturities of five years or less), either for their prospective returns, or as a tactical decision due to concerns over the stability of the UK banking system. At present Lister does not invest in Gilts.

12.3 The Co-operative will ensure that there is sufficient liquidity in the working capital account (referring to cash flow projections) before deciding on the amount of funds available for investment. Currently the level of £50,000-£100,000 is deemed sufficient working capital and this can be in funds in the Bank of Scotland current and linked deposit account or in accounts with other institutions with access of 7 day or less.

12.4 The Co-operative will ensure that funds are transferred on a timely basis to and from its investments.

12.5 Before any investment is made, a minimum of three of the authorised investment institutions must be considered. Terms and interest rates offered must be assessed and recorded by the Director .

12.6 Deposits should be placed to receive the most favourable terms while maintaining the appropriate spread of investment, and also a spread of maturity dates.

12.7 Given current sums available for investment, there is a £1.0m maximum sum that can be invested with any one institution, except for our current account and linked deposit account.

12.8 Deposits will be placed with any given institution up to a maximum and not exceeding 60 months.

13. BORROWING STRATEGY

13.1 In undertaking borrowing activities, the Co-operative will borrow from UK banks and building societies which are experienced in the sector, as detailed in **Appendix C**. Preference should be given to the lenders on the approved list, however the Director can propose, with justification, the addition of a new lender to the list. Any alteration to the list of approved lenders can be made only with the approval of the Management Committee. At present Lister has no need for borrowings.

13.2 The borrowing of the Co-operative is determined as follows:

a) The maximum amount of borrowing will be restricted by the rules of the Co-operative (the limit is set at £10,000,000), lending covenants, ability to repay the loan and asset cover. This will be tested through cash flow, balance sheet and income & expenditure projections.

b) Lister Housing Co-operative has not set a minimum percentage level of borrowing to be secured at a fixed rate of interest at this time to take advantage of the historically-low bank base rate. Exposure to variable and fixed rates of interest will be carefully considered throughout the loan period taking into account both the economic conditions prevailing at the time and Lister Housing Co-operative overall loan portfolio.

c) The Co-operative will provide security over property to the value agreed with the lender. The Co-operative will offer the minimum amount of security required by a lender to secure the required private finance.

d) Before the borrowing is made, a minimum of three of the authorised lending institutions must be approached and terms, covenants, and interest rates offered must be considered and compared.

e) All borrowing must have the prior approval of the Committee of Management.

f) Final decisions on interest rates, loan terms and conditions of borrowing may be delegated to the Senior Management of the Co-operative with all decisions ratified at the next Management Committee Meeting. The Senior Management are accountable at all times for their actions to the Management Committee.

13.3 In the case of all proposed borrowing, the Director will prepare a report for the Management Committee seeking its agreement and a recommendation containing the information set out in **Appendix C**.

14. INTEREST RATE EXPOSURE

14.1 The Co-operative may use derivative products (caps, collars and interest rate swaps) to hedge against interest rate risk. The Co-operative will adopt the procedural framework for the use of derivatives as detailed in the SHR Treasury Management Guidance. Before any derivative contracts are entered into by the Co-operative, appropriate advice from a suitably qualified advisor, authorised and regulated by the Financial Conduct Authority (FCA), will be obtained. Currently Lister does not use derivatives.

15. REVIEW AND REPORTING

15.1 The Director will prepare, if required on an exception basis, an update to the Committee on the treasury management activities of the Co-operative.

15.2 The Director will prepare an annual Treasury Management report for the Management Committee which will comment on the effectiveness of the strategy with any recommendations for change to be considered.

16. LEGAL MATTERS

16.1 Prior to entering any borrowing or investment transactions the Co-operative will seek appropriate legal advice to ensure that the proposed transactions do not breach any statute, external regulation or the Co-operative's own financial regulations.

17 OTHER MATTERS

17.1 The Co-operative's banking facilities are currently held with the Bank of Scotland Service and levels and charges shall be reviewed on a regular basis by the Director.

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

17.3 The Director shall ensure they have access to financial market commentaries and reviews on the likely future 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.

17.4 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 regard.

17.5 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 the SHR, the FCA and the Scottish Government as appropriate.

17.6 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 its treasury management activities will be undertaken with openness and 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.

18. CONCLUSIONS

18.1 In implementing the guidelines as set out above, the following outcomes will be achieved:

a) The Management Committee will have overall control of policy issues relating to treasury management.

b) The Senior Management of the Co-operative will have reasonable freedom to pursue the operational, tactical and strategic aims of the Co-operative within the framework established by the Management Committee.

c) Control and reporting procedures will be established to keep the Management Committee fully informed of treasury management activities and developments.

d) The Co-operative will benefit from increased capital security and more efficient control of financial assets.

e) A formal review will be implemented to review Treasury Policy, strategy and procedures on at least an annual basis. This will ensure that risks are reviewed as market and economic conditions change.

f) Ensure compliance with lenders covenants and information requirements.

APPENDICES

A: Delegated authorities

B: Approved investment institutions

C. Approved borrowing institutions/sources of private finance

Procedure note no:		Last reviewed:		26 November 2019
File reference:	Pft/treasury mgmt	Last updated:		26 November 2019
Adopted:	23 January 1996	Review no:		

APPENDIX A DELEGATED AUTHORITIES

1. Management Committee

The Management Committee will be responsible for:

1) Approving the Treasury Management Policy and subsequent amendments.
2) Approving loans (overdrafts or long term) and investment of surplus funds.
3) Agreeing staff responsibility and accountability for investing raising loans and approving the procedures to be adhered to.
4) Agreeing the policy on interest rate exposure and how to respond to different interest rate regimes than that forecast.
5) Approving the annual treasury management strategy.
6) Considering any treasury management reports and reviews to ensure treasury management decisions comply with agreed policy and procedures. Approving any amendment to the strategy should it be appropriate to minimise risks.

2. Senior Management

The following powers are delegated to Senior Management:

1) The day-to-day administration of this strategy will be delegated from the Management Committee to the Senior Management of the Co-operative.
2) Making recommendations to the Management Committee regarding treasury management strategy.
3) Making recommendations to the Committee regarding the procurement of private finance and investment of surplus funds.
4) Ensuring compliance with loan covenants and information requirements.
5) Ensuring an effective system of internal controls exist to safeguard the assets of the Co-operative. The Housing Assistant will be responsible for checking and monitoring the bank balances on a daily basis and report immediately to the Director of any inaccuracies or irregularities.
6) The investment levels and the Senior Management delegated to authorise the investment decisions are the Director and the Housing Officer.
7) The Co-operatives staff members are not be permitted to act outside the guidelines contained in this policy and are accountable at all times to the management committee for their actions and decisions.

END

APPENDIX B APPROVED INVESTMENT INSTITUTIONS

[redacted]

The list of approved financial institutions has been shortlisted from the institutions authorised by the Prudential Regulation Authority. Additions to this list, upon recommendation by the Director, shall be approved by the Treasurer of the Management Committee.

The credit worthiness of approved institutions will be monitored by the Director. Any impairment to the credit worthiness of the approved institutions will be advised to the Management Committee.

END

APPENDIX C APPROVED SOURCES OF PRIVATE FINANCE

Bank of Scotland

The above list may be amended, with approval from the Management Committee.

The list only contains our current bankers, as we have no need at present or in the foreseeable future, for borrowings.

END