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<b>Policy Name</b>	<b>Treasury Management Policy</b>
<b>Policy Author</b>	<b>FMD Financial Services Director, Finance Officer</b>
<b>Approved by Sub Committee</b>	<b>N/A</b>
<b>Approved by Management Committee</b>	<b>December 2025</b>
<b>Latest date of Next Review</b>	<b>December 2028</b>

West Whitlawburn Housing Co-operative will provide this policy on request at no cost, in larger print, in Braille, in audio or other non-written format, and in a variety of languages. Please contact the office.

**Registered with the Scottish Housing Regulator No. 203**  
**Registered Charity No. SCO38737, VAT Registration No. 180223636**  
**Registered society under the Co-operative and Community Benefit Societies Act 2014**



## **1. Introduction**

- 1.1 This Treasury Management Policy is based upon the recommendations of the Code of Practice on Treasury in the Public Services issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) (2017 Edition).
- 1.2 The Code identifies three key principles-
  - The Co-operative should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.
  - The policies and practices should make clear that the effective management and control of risk are prime objectives of the Co-op's treasury management activities and that responsibility for these lies clearly within the organisation. The appetite for risk should form a 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.
  - 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 practices should reflect this.
- 1.3 The Co-op's Financial Regulations shall include the CIPFA Code recommended clauses in relation to treasury management.
- 1.4 Taking account of the large cash sums moving in and out of the Co-op it is important that appropriate Treasury Management procedures and practices are in place. Treasury Management is concerned with making appropriate use of surplus funds whilst meeting the overriding need to protect the capital sum and, in the case of borrowing, keeping costs to a minimum whilst ensuring the stability of the longer-term financial position.
- 1.5 Overall control of the Co-op's treasury management rests with the Management Committee. The Officers of the Co-operative must not operate outside of the guidelines set out in this policy and are accountable at all times to the Management Committee for their actions and decisions.

- 1.6 It is essential that Committee Members are aware of and understand the decisions being made by the Co-op and their financial implications. The Management Committee is responsible for reviewing and monitoring the financial requirements of the Co-op in compliance with SHR Regulatory Standards, WWHC's Financial Regulations and CIPFA's Code of Practice on Treasury Management. The Director shall ensure that Committee and Staff Members will be briefed and receive appropriate training as requested or required.

## **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 The Co-op 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
- 2.3 The Co-op acknowledges that effective treasury management will provide support towards the achievement of its business objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 2.4 The overriding aim of the policy is to ensure that the Co-operative will not be exposed to undue risk. In balancing risk against return the Co-op is more concerned to avoid risks than to maximise returns.
- 2.5 The Co-op comprises of a number of different operations or cost centres. Treasury Management allows the organisation to deal with the combined position of each cost centre within the Co-op in the most advantageous way. All funds of the Co-operative should be aggregated for Treasury Management purposes.
- 2.6 The Co-operative's Treasury Management policy and its system for ensuring effective compliance will be subject to regular review and at least every three years.

- 2.7 The Co-op shall review its Treasury strategy at least on an annual basis.

### **3. Regulatory Standards of Governance and Financial Management**

- 3.1 The SHR Regulatory Standards which govern Treasury Management activities have been taken into account

- RS3.1: The RSL has effective financial and treasury management controls and procedures, to achieve the right balance between costs and outcomes. The RSL ensures security of assets, the proper use of public and private funds, and access to sufficient liquidity at all times.
- RS 3.2: The governing body fully understands the implications of the treasury management strategy it adopts, ensures this is in the best interests of the RSL and that it understands the associated risks
- RS 3.5: The RSL monitors, reports on 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

- 3.2 SHR Business Planning guidance (August 2015) contains the regulatory expectation that an RSL will comply with the CIPFA Code.

### **4. Risk Management**

- 4.1 In considering risk management the Co-operative 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 of this policy and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Co-op's objectives as set out in this policy.
- 4.2 The CIPFA Code of Practice details some of the key risks faced by a housing co-op's treasury operations and those considered relevant to the Co-op's operations are set out in this section.
- 4.3 The Co-op has considered the potential risks facing the organisation should the Treasury Management procedures fail to be adhered to. Material additional interest costs or other charges and costs (potentially via loan covenant or condition breaches) could arise from the failure to follow these procedures properly. Should it be

deemed that the Co-op is not complying with the conditions contained within this document, the Regulator may comment adversely on such matters. This could have an adverse effect on confidence in the Co-operative by lenders, other partners and members.

- 4.4 In order to minimise the risk, the Co-op 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-op. Furthermore, methods of validation and ensuring probity include an annual external audit, regular internal audit and reports to members and The Scottish Housing Regulator.

- 4.5 The main areas of **borrowing risk** are:-

a. 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-op 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-op'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 RSL in terms of low inflation.

An appropriate hedging strategy will assist in minimising any adverse effects caused by increases in interest rates.

b. Liquidity Risk

This risk is where the Co-op 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 production of quarterly cash flow monitoring reports shall assist in reducing this risk.

c. Funding and Refinancing Risk

This is the risk that loans falling due which the Co-op does not have the cash resources to repay cannot be replaced at an acceptable cost. In addition funding risk can cover overdependence on one lender in the market.

d. 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-op 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.

e. 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 companies 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.

4.6 The main areas of **investment risk** are:-

a. 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 FSA) and Bank of England but an increased awareness is required given all issues attaching to the current economic climate.

The Co-op 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.

- b. 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-op 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.

#### 4.7 **General Treasury Risk Considerations**

- a. Legal and Regulatory Risk  
The risk that the Co-op 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-op suffers losses accordingly.

Legal advice, where appropriate, and regular monitoring of regulation advice and guidance, shall assist in reducing this risk.

The Co-op 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. **Treasury Management Approach**

#### 5.1 Responsibilities

- a. Responsibility for implementing and monitoring rests with the Management Committee.
- b. Only the Management Committee has the authority to commit the Co-op to borrowing facilities or to vary any existing loan documentation.
- c. The Director, in consultation with the Finance Officer, shall be responsible for making recommendations to Management Committee on borrowing, investment and financing decisions and will include external advice from an appropriate Financial Consultant where required.

- d. Operational responsibilities relating to existing day to day loan arrangements and deposits are delegated to the Director and Finance Officer. This includes ensuring compliance with loan covenant and information requirements as well as the placing of deposits for up to 12 months in accordance with policy.
- e. It is recognised that the Director may have to execute a decision quickly, in relation to fixed interest opportunities, with no time available to refer the matter for Committee consideration. In all such instances the Director will consult with all available Office Bearers and a written report must be presented at the next available Management Committee meeting.
- f. The Management Committee will oversee the overall risk approach by the Co-op to ensure it remains up to date and relevant. This Committee shall also take all reasonable steps to ensure that day to day controls are carried out by staff.

## 5.2 Approved Activities

- a. Raising capital finance for capital projects.
- b. Raising capital finance for stock acquisitions.
- c. Investment of surplus funds.
- d. Arrangement of short term overdraft facility.
- e. Banking facilities

## 5.3 Approved Methods of Raising Capital Finance

- a. Borrowing for term loans will normally be on a standard capital and interest basis.
- b. Appropriate use may be made of capital repayment holidays.
- c. Borrowing for development or bridging funding may be by overdraft. Borrowing may not exceed £100 million in accordance with the Co-op's rules (Rule 15.1).

## 5.4 Approved Sources of Finance

The following organisations are approved currently as sources of funding:

- Co-operative Bank
- Energy Savings Trust
- Scottish Government
- CAF Bank



The above list may be amended, with approval from the Management Committee, if other lenders enter into the market offering loan finance to Registered Social Landlords on attractive terms.

In addition to traditional loan finance from the above institutions, the Co-op shall consider participating in aggregated bond finance alongside other Scottish RSLs.

Before any new lender is added to the approved sources of funding, the Co-op must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the Director in conjunction with the Finance Officer, and, where appropriate, a suitably qualified external Financial Investment Adviser. A written report will be submitted to the Management Committee advising of any request for a new institution to be added to the above list.

## 5.5 Interest Rate Exposure

- a. The Co-op shall ensure that an appropriate mix of fixed and variable rate finance is in place. Currently it is considered that fixed rate finance of 35% to 50% represents a suitable mix for the Co-op. Any fixed rate arrangements shall also consider the maturity of fixed interest loans over periods ranging from 5 to 25 years subject to no major variations in rates being achieved over the different interest periods.
- b. The potential for material breakage costs on any fixed rate arrangements, which would arise if the Co-operative decides to 'break' the agreed fix, shall be considered as a part of the decision making process.
- c. The Annual Treasury Management Report should contain information on current interest rate trends for the short, medium and longer term. The Co-op will make use of generally available market information including quality financial press, market data, monetary policy committee reports and information on government support for banks.

## 5.6 Approved Organisations for Investment

- a. The following organisations are approved currently for investment purposes:
  - Royal Bank of Scotland
  - CAF Bank
  - Flagstone

The list of approved financial institutions has been shortlisted from the institutions with a UK banking license.

- b. Deposits in excess of £120,000 should only be placed with institutions which have ratings which satisfy certain criteria from at least two of the three recognised credit rating agencies (Moody's, Fitch and Standard and Poor's):
  - Moody's - 'P-1' - Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
  - Fitch - 'F1' - Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments.
  - Standard & Poor's – 'A-1' - An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's.

Institutions which do not meet the ratings requirement above, will have a maximum investment level of £120,000 as covered by the UK Financial Services Compensation Scheme (FSCS).

The credit worthiness of approved counterparties will be monitored quarterly by the Director and Finance Officer. Any impairment to the credit worthiness of the approved counterparties will be advised to the Management Committee.

- c. Sensible judgement should prevail in deciding whether to immediately remove the Co-op's funds from fixed-term or notice deposit accounts (if it is possible to do so prematurely) of an approved deposit-taker, should its credit ratings fall below the minimum criteria set out above. Certainly, funds should be removed, at the very latest, at the end of the fixed-term (should it continue to fail to satisfy the minimum criteria at that time), or immediate notice should be given.
- d. Credit ratings will be a key source of information but it is important to recognise that they have their limitations. The Co-op will also make use of generally available market information including quality financial press, market data and information on government support for banks.
- e. 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-op should take all possible steps to repatriate its funds and place them with an institution it considers to be safer.

- f. Before any investment is made with a new organisation, the Co-op must satisfy itself, acting reasonably, that the organisation is financially stable. This will be the responsibility of the Director in conjunction with the Finance Officer, and, where appropriate, a suitably qualified external Financial Investment Adviser. A written report will be submitted to the Management Committee advising of any new organisation that has been added to the above list.
- g. The Co-operative shall monitor the detail of the FSCS or such similar schemes which may offer a degree of protection of funds.

## **5.7 Reporting**

- a. A report will be put to the Management Committee at least once a year on treasury management operations. External advice from an appropriate Financial Consultant will be taken where required.
- b. The annual report on Treasury Management operations must provide information on the following: -
  - Details of current lenders
  - Loan balances outstanding per lender
  - Loan terms
  - Expected settlement date
  - Mix of fixed rate and variable rate finance
  - Security cover provided, details of 'excess' security per lender and basis of valuation.
  - Valuation update requirements in the year ahead
  - Covenant compliance.
  - Unencumbered stock and indicative valuation.
  - Future proposed borrowing or refinancing for the financial year ahead
  - Interest earnings from investment of surplus funds
  - Preparation of the annual budget and confirmation of no liquidity or covenant compliance.
  - Market view of future interest rates over the next 12-36 months.
  - A review of the approved sources of finance with reasons behind recommendation.
  - A review of the approved organisations for investment with reasons behind recommendation.
  - Any value for money considerations and benefits attaching to the treasury management function.
  - Compliance with policy.
- c. All recommendations to members on borrowing decisions must be provided in a written form and consider the following: -

- Borrowing requirements
- Sources
- Basis of interest rates
- Loan margin
- Borrowing period
- Repayment options and costs
- Assessment of documentation (including margin review and early repayment clauses and default clauses)
- Security (including release of security provision)
- Arrangement fees
- Non utilisation fees
- Draw down arrangements
- Hedging requirements from lender
- The implications of fixed rate arrangements (including breakage costs).
- Changes in existing loan terms
- Fixed/capped rates
- Capital repayment details
- Compliance with policy.

The report must contain a recommendation from the Director (and, where appropriate, a suitably qualified Financial Investment Adviser) in consultation with the Finance Officer and provide costs and terms from all lenders approached.

- d. The Co-op may periodically consider the early repayment of loan debt. Any such requests must be in a written form and any such prepayments require approval of the Management Committee.
- e. The preparation of the annual budget and the 5 / 30 year projections are considered a sound framework for effective cash management and shall be discussed at the Management Committee as appropriate to allow the monitoring of income, deposits and other treasury management issues.
- f. All budgets and management accounts must include relevant information in respect of covenant compliance
- g. Quarterly management accounts will contain information regarding all cash funds and deposits.
- h. The Finance Officer shall prepare Loan Portfolio Returns in accordance with Scottish Housing Regulator guidance.

## **6. Operation of Treasury Management Procedures**

### **6.1 Investments**

- a. The Director / Deputy in conjunction with the Finance Officer will carry out the task of investing surplus funds by transferring surplus balances into savings accounts with approved organisations for investment.
- b. Bank balances must be checked by the Finance Officer on a regular basis.
- c. The Co-operative, subject to working capital requirements, shall endeavour to maximise the use of bid deposits. In this regard, consideration shall be given periodically to rates on offer from approved investment institutions.
- d. The Finance Officer will undertake a regular check on the investment of surplus funds in liaison with the Director.
- e. Any requests for deposit rates and funding terms shall normally be issued only to the approved named institutions listed in 5.6 and information received shall be recorded by the Finance Officer.
- f. Given current sums available for investment there is a £2.1m maximum sum that can be invested with any one institution. This amount excludes any day to day working capital which must be held at a minimum of £500k. In addition, the liquidity position will be reviewed at the point of any reinvestment so that sufficient funds are available.
- g. The Co-operative will not deposit funds denominated in a foreign currency

### **6.2 Loan Finance**

- a. Responsibility for negotiating development project finance lies with the Director/Deputy with appropriate external advice.
- b. The period of borrowing must not normally exceed 30 years and the Co-op reserves the right, if it is considered appropriate, to fund from its own reserves the balance of any project costs after deduction of grants, or to make a partial contribution to the overall project costs.

- c. In selecting an appropriate lender the Co-op must give consideration to its current loan portfolio with regard to previous providers of finance in order to ensure an appropriate mix of lenders. It is acceptable that the Co-op can opt to go with one lender.
- d. The Co-op shall obtain legal advice before agreeing loan documentation and no loan or other funding agreements can be entered into without the formal consent of the Management Committee.
- e. Whilst the Co-op shall seek to minimise the number of units on which security is granted at the outset, the terms of the overall funding package shall take precedence.
- f. The Co-op must ensure that it has the permission (where required) of existing lenders to borrow additional funds and that any additional borrowing will not breach any existing covenants with existing lenders or increase the Co-op's risk exposure to a default situation where the lender will recall or re price existing loan finance.
- g. The Co-op will not enter into any derivative transactions or enter into hedging arrangements that are regarded as being of a sophisticated nature.
- h. The Co-op will not enter into any loan transactions that are index linked.
- i. The Co-op will not borrow funds denominated in a foreign currency or crypto currency.
- j. The Co-op will at no time grant any lender a Floating Charge over its properties.
- k. The Co-op shall maintain records of stock valuations and shall arrange revaluations of stock where required for funding purposes or to comply with loan documentation.

### 6.3. Other Matters

- a. The Co-op's banking facilities are currently held with Royal Bank of Scotland. Service levels and charges shall be reviewed on a regular basis by the Finance Officer.
- b. The Co-op 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.
- c. The Director /Deputy/Finance Officer shall ensure they have access to financial market commentaries and reviews on the likely future courses of interest and inflation rates from the sources at point 5.5 c above to enable the Co-op to assess future treasury risks and scenarios and to permit the effective management and control and development of suitable risk management strategies.
- d. The Co-op 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.
- e. The Co-op must at all times, in carrying out the treasury management function, give consideration to the Rules of the Co-op, all applicable legislation, its Financial Regulations and Standing Orders, all existing loan agreements and guidelines issued by SHR, OSCR, FCA and the Scottish Government as appropriate.
- f. The Co-op 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-op 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.