1 Introduction

1.1 This document sets out Foundation Scotland's [FS] approach to Treasury Management.

1.2 This policy should be read in conjunction with the following:-

- Investment Policy
- Risk Management Policy
- Reserves Policy
- Anti-Fraud Policy
- Anti-Money Laundering policy

2 Scope

2.1 The policy does not extend to FS's pension arrangements which are currently in a defined contribution scheme.

3 Abbreviations and Definitions

Abbreviations

- CFOO – Chief Finance and Operations Officer
- AAC – Audit and Assurance Committee

Definitions

- Treasury Management - The management of the organisation's cash flows, banking, unrestricted investment and borrowing transactions, effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. FS needs to address the following risks:-
- Liquidity Risk – to ensure there are adequate, though not excessive, cash resources, borrowing arrangements and overdraft facilities to enable FS to have the level of funds available necessary for the achievement of its objectives.
- Interest Rate Risk – to ensure FS has adequate protection against the risk of fluctuations creating an unexpected or unbudgeted burden on its finances.
- Credit and Counter-party Risk – to ensure that FS has sufficient protection from the risk of failure by a third party to meet its contractual obligations to it, particularly because of the third party's diminished creditworthiness.
- Market Risk – to ensure that FS will not be compromised by adverse market fluctuations in the value of the funds it invests.

- Legal and Regulatory Risks – to ensure that all of the treasury management activities FS undertakes comply with its Articles of Association and regulatory requirements.
- Fraud and Error Risks – to ensure that the circumstances are identified and managed which may expose FS to risk through fraud or error.

4 Policy

Liquidity

4.1 The possible causes of a liquidity crisis include:-

- Unplanned reduction in revenue – e.g. unexpected termination of a contract or the withdrawal of financial support by a significant donor.
- Business disruption – e.g. inability to tender and seek new work or deliver on existing commitments.
- Unplanned capital expenditure – e.g. the need to replace or undertake repairs of a significant scale on an asset.
- Sustained reduction in ability to cover core operating costs – e.g. fund arrangements failing to cover their “fair share” of overhead.

4.2 Measurement of Liquidity Risk

4.3 FS uses the current ratio on unrestricted funds as a measure of liquidity. Management of Liquidity Risk

- A minimum of 2 months of operational costs will be retained in the Operating Account or other nominated instant access account.
- Major capital investments, contracts, and agreements [> £50,000] require liquidity impact assessments.
- The default stance for the acceptance for contracts and agreements is funding in advance of need not arrears.
- Grants are not paid out until the related funds are received.

4.4 Reporting of Liquidity Risk

- The FS Management Accounts contain the projected cash flow to the end of the financial year.

Interest Rate Risk

4.5 The possible causes of Interest Rate Risk include a material change in:-

- Rate of interest on borrowings – e.g. specific loans supporting investments.
- Interest bearing investments – e.g. bonds.
- Finance and Operating leases – e.g. those used in relation to office equipment.
- Creditors accounts – e.g. those that offer prompt payment settlement.

4.6 Measurement of Interest Rate Risk

- FS undertakes scenario analysis at the time of the annual budget.

4.7 Management of Interest Rate Risk

- Borrowings are reviewed by the AAC against the prevailing interest rates.
- The Investment portfolio performance is reviewed by the AAC at quarterly intervals
- Reporting of Interest Rate Risk
- The AAC papers include the investment portfolio and reporting on significant interest rate affected matters when appropriate.

Credit and Counter-party Risk

4.8 The possible causes of Credit and Counter-party risk include:-

- Default by the FS bank[s].
- Default by a funder/donor/client – e.g. non-payment of administration fees.

4.9 Measurement of Counter-party Risk

- Bank ratings are produced by ratings agencies which are used to Inform FS's decisions.

4.10 Management of Counter-party Risk

- Only UK licenced banks, with a minimum of A- Standard and Poor's grade, are used.
- Bank ratings are included in the Management Accounts.
- The Investment Managers are regulated by the FCA and insurance cover is checked annually.
- Cash holdings diversification policy in place – i.e. holdings are spread across two banks.

4.11 Reporting of Counter-party Risk

- Non-compliance with counter-party limits will be reported to the AAC.

Market Risk

4.12 The Investment Policy addresses the Market Risks.

Legal and Regulatory risks

4.13 The possible causes of Legal and Regulatory Risks include:-

- Lack of awareness of the Legal and Regulatory framework.
- Making regular and significantly sized cash payments.
- Receiving large sums from Donors without undertaking due diligence.

4.14 Measurement of Legal and Regulatory Risks

- The degree of compliance with agreed procedures.

4.15 Management of Legal and Regulatory Risk

- The CFOO is supported by experienced AAC members.
- No payments are made by cash.
- Due diligence is in place for donor receipts [see Anti-Money Laundering Policy].

4.16 Reporting of Legal and Regulatory Risk

- Narrative reporting is included in the papers to the AAC.

Fraud and Error Risks

4.17 The possible causes of Fraud and Error Risks include:-

- Lack of segregation of duties within the organisation.
- Lack of training for staff involved in treasury tasks.
- Lack of procedures or poor procedures to follow.

4.18 Measurement

- The number of instances of errors picked up in treasury matters within the Finance department.
- The number and extent of attempted frauds in FS.

4.19 Management

- There are procedures for error checking within the Finance department and an annual audit is a legal requirement.
- There is an Anti-Fraud Policy in place and reporting in place for incidents.

4.20 Reporting of Fraud and Error Risks

- Frauds and Errors which are discovered are recorded on RiskMate and reported to the AAC and the Board. Depending on the seriousness they would also be reported to OSCR.
- Weakness in systems, which may increase the likelihood of fraud occurring, are corrected and reported to the AAC as part of the Risk Management process.

Procedures for Cash and Temporary Investments

4.21 The amount and period of any temporary investment shall be determined by reference to FS's estimated short-term cash flow requirements. For this purpose, the Accountant is responsible for maintaining a detailed forecast of cash movements covering at least three months ahead.

4.22 Use of FS's bank overdraft facility [if in place], is permissible only with the prior approval of the Board Chair.

4.23 To assist with obtaining the best interest rates, FS will seek to consolidate, so far as possible, all surplus cash for investment [excluding any cases where legal restrictions or the provisions of an endowment require otherwise].

4.24 Where FS invests short term funds itself, the arrangements are that the only approved investment, except for accounts with the bank, is the simple money market deposit – either for a fixed period or on notice [e.g. 2 day – 7 day].

4.25 The amounts which may be lent to individual borrowers or banking groups shall be determined by AAC, and may be varied from time to time.

4.26 Any interest-bearing account facilities offered by FS's bankers may be used as an alternative to temporary investment at the discretion of the CFOO. In determining the use of such facilities, regard shall be paid to the rate of interest received and, on any restrictions, placed by the Bank on the use of such accounts.

4.27 FS may also choose to hold cash balances and temporary investments on deposit with fund managers. These decisions will be made by AAC who will take such advice as they think appropriate.

4.28 Interest earned from investments will be credited to the appropriate accounts monthly.

Procedures for funds held for long-term purposes

4.29 FS funds held for long-term purposes are covered by this policy, subject to meeting the requirements of any donors, where relevant. See Investment Policy.

4.30 Transfers to and from the funds invested must be approved in principle by the Board.

Procedures for working capital

4.31 These procedures concern debtors and creditors. The Accountant will plan for debts to be collected promptly, and creditors to be paid in a timely fashion so as to maximise operating cash flow. Discounts for early payment will be accepted where their size exceeds the loss of interest on cash used and interest may be charged on payments later than 30 days from the invoice date.

Procedures for Borrowings

4.32 An overdraft facility may be maintained for operational purposes and a loan facility may also be arranged for the same purpose, but their use will be minimised to keep costs down. They will not be used for long-term purposes. All overdraft and loan facilities must be approved by the Board following a recommendation from the AAC.

4.33 Any proposals for long-term borrowing for funding of projects will be evaluated carefully by the CFOO in line with FS's strategy and the objectives of this policy. It will normally be expected that several sources of funds will be evaluated in each case. Any proposals must be approved by the Board following a recommendation from the AAC.

4.34 Any subsequent refinancing or repayment of a borrowing arrangement will be considered if the terms are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time and will require approval of the Board following a recommendation from the AAC.

Implementation

4.35 This policy and related guidance are available to all staff on the shared server. Its effectiveness will be measured by the successful identification, monitoring and control of risks. Consequently, the analysis and reporting of treasury management activities will focus on the risk implications for FS.

5 Roles and Responsibilities

5.1 The roles and responsibilities are detailed throughout the Policy

6 Training

- There is no related training linked to this Policy

7 References

- There are no references linked to this Policy

8 Review

8.1 This policy is reviewed, approved, and endorsed by the Board of trustees. It is updated when required by legislation, to ensure that it reflects statutory responsibilities, government guidance and best practice for FS, or every 36 months whichever is the soonest.

9 Document Properties

Title	Treasury Management Policy		
Type	Policy	Classification	Finance
Reference Number	21	Version - auto-generated	0.14
Status	Approved	Approval Date	22/02/2022
Author	CFOO	Approver	FS Board
Last Reviewed regardless of whether changed	04/11/2025	Next Review Date	04/11/2028