TREASURY MANAGEMENT GUIDANCE

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Treasury Management Guidance

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Treasury Management Guidance

1. Introduction

1.1. What is this guidance for?

This guidance is for Management Committee members and officers involved in treasury management in Clydesdale Housing Association (CHA).

The guidance focuses on supporting CHA to develop and maintain a Treasury Management Policy that is appropriate and proportionate for the organisation; complies with the Scottish Housing Regulator's expectations; is usable by all stakeholders; and supports the Management Committee in gaining assurance that treasury management is being appropriately managed.

1.2. Why is this guidance needed?

Treasury management is a complex and technical aspect of an RSL's activity. It inevitably entails risks that need to be identified, assessed and managed on a continual basis. There are also significant issues around reporting and compliance, in respect of both lenders and regulators.

However, in CHA, as in most RSLs, the treasury management workload is not sufficient to merit employment of fully qualified treasury management specialists; it is customarily included in the portfolio of responsibilities assigned to the Finance Manager (or equivalent post). Therefore, specialist guidance is required to support and guide these activities.

For Management Committee members, guidance is needed as they are ultimately responsible for the management of the RSL's affairs, including borrowing arrangements, and for compliance with the SHR's requirements for assurance of good governance. It is not reasonable to ask Management Committee members to give such assurances without a framework for assessing the information they are provided with, and for raising appropriate challenge.

1.3. The Regulatory Position

The Scottish Housing Regulator's (SHR) Standards of Governance and Financial Management for RSLs[1] require that RSLs manage their resources to ensure financial well-being, while maintaining rents at a level that tenants can afford to pay. The relevant standard is reproduced at Appendix A.

[1] https://www.housingregulator.gov.scot/for-landlords/regulatory-framework

Standard 4.5 of the Framework states that RSLs must prepare and publish an Annual Assurance Statement to confirm to their tenants and the SHR that they are meeting the **Standards of Governance and Financial Management**. The standards require RSLs to have effective financial and treasury management controls and procedures, and the Management Committee is expected to fully understand the implications of the Treasury Management Strategy (TMS) it adopts, to ensure this is in the best interests of CHA and to understand the associated risks. They are also expected to monitor, report on and comply with the covenants CHA has agreed with funders. The Management Committee must assess the risks of these not being complied with and take appropriate action to mitigate and manage them.

CIPFA (the Chartered Institute of Public Finance and Accountancy) is the public service accountancy membership and standard-setting body. It is the only such body globally dedicated to public financial management. It publishes a **Code of Practice for Treasury Management in the Public Services**[2] (the CIPFA Code), which is aimed at all UK public services bodies.

The SHR's **Business Planning Recommended Practice**[3] states

Each RSL should be able to demonstrate effective *treasury management* arrangements *that comply with the CIPFA code. Effective systems should be in place to monitor and report regularly to the Management Committee on covenant compliance. RSLs should be aware of lenders' timescales for testing covenants and ensure that the implications of any breach are understood.*

Accordingly, RSLs that can demonstrate compliance with the CIPFA Code and their individual reporting requirements will meet the SHR's requirements for treasury management, and this guidance is structured to support RSLs to achieve that compliance.

1.4. How is this guidance structured?

This guidance is structured around

- Defining and explaining treasury management by reference to the CIPFA Code;
- providing a model for collating data, and managing and reporting risk;
- developing an annual calendar of treasury events;
- and providing a glossary of treasury management terms.

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2 https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition

3 https://www.housingregulator.gov.scot/for-landlords/advisory-guidance/recommended-practice/recommended-practice-business-planning-december-2015

1.5. How to develop a Treasury Management Policy

Following that process will allow an RSL, such as CHA, to develop a Treasury Management Policy that meets CIPFA and regulatory expectations, and that can be reviewed and updated in a structured way.

The process for this is as follows:

STEP	PROCESS
1	Collate and if necessary update the data set out in the Data Sheet, which is maintained within the Long Term Financial Plan
2	Identify and score the risks described, considering the probability (how likely is it that the event will occur?) and the impact (what would be the effect of the event occurring?) using the standard CHA Risk Map template
3	Develop relevant policy statements to manage each identified risk, and then ensure that any procedure notes deliver the policy requirement
4	Identify the indicators that need to be managed through Golden Rules, and identify the appropriate level for each, including triggers for Management Committee questioning, corrective action and policy review
5	Collate the policy statements, Golden Rules and calendar into one document, for Management Committee discussion and approval
6	As trigger events or dates are reached, review and revise the policy

2. What is Treasury Management?

2.1. Definition, Purpose and Benefits

The CIPFA Code defines Treasury Management as

the management of the organisation's borrowing, investments and cashflows; 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

This makes clear that Treasury Management covers the full range of activities and responsibilities, including

- planning and arranging debt
- cashflow management, over both short and longer terms
- management of cash deposits. including money market and capital market activity if any
- reporting to the Management Committee, Committee, lenders and regulators
- risk and performance management, including the qualifications and training of those involved
- management of treasury dealing and reporting, including appropriate segregation of duties

The purpose of treasury management is not to eliminate risk; risk cannot be eliminated, and accepting and properly managing risks allows an organisation to gain advantage. Instead, the process of treasury management is led by identifying and assessing treasury risks; deciding which to accept and manage, and then prescribing how; and eliminating those which pose too much threat to the organisation.

CIPFA describe the purpose of the Code as

- supporting the credibility of organisations by showing firm foundations and clear objectives in treasury management
- emphasising the importance of risk management in treasury management
- encouraging value for money and the use of appropriate and practical performance indicators
- developing the understanding and confidence of financial institutions in public service organisations
- assisting regulators and auditors of public service organisations

It should also be added that having a well developed and practical treasury management policy in place and adhered to allows the Management Committee and senior staff to understand the scope of their respective responsibilities for reporting and decision making.

2.2. Contents of the CIPFA Code

The Code sets out three key principles:

- Organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management
- Organisations' policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their 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 portfolio liquidity when investing treasury management funds.
- Organisations 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, their treasury management policies and practices should reflect this.

CIPFA's stated view is that protection of capital is a priority over financial return, but not all risk can or should be avoided. However, the effective management of treasury risk should be viewed as an indicator of a strongly performing treasury function and a balance must be struck between value for money and risk management.

The key tools used to define and document compliance with the CIPFA Code are usually referred to as the Treasury Management Policy and Treasury Management Strategy.

2.3. Key Expectations of the CIPFA Code

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances, the following four clauses. [4]

1. *This organisation will create and maintain, as the cornerstones for effective treasury and investment management:*
   - *a treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities*
   - *suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities*
   - *investment management practices (IMPs) for investments that are not for treasury management purposes.*

   The content of the policy statement, TMPs and IMPs will follow the recommendations of the CIPFA Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the CIPFA Code's key principles.

2. *The Management Committee will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs and IMPs.*
3. *This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit and Risk Committee for the execution and administration of treasury management decisions to the Finance Manager, who will act in accordance with the organisation's policy statement, TMPs and IMPs, and if they are a CIPFA member, CIPFA's Standard of Professional Practice on treasury management, or other relevant professional standards.*
4. *This organisation nominates the Audit and Risk Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.*

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[4] Text in *italics* is taken directly from the CIPFA Code

2.4. Treasury Management Policy

The Treasury Management Policy ('the Policy') is CHA's policy document, which

- describes the treasury risks facing the Association
- sets out how each risk will be managed, including assigning responsibility for risk management to the appropriate post
- sets out loan covenant obligations, and identifies how these will be monitored and reported to the Management Committee
- identifies lender and regulatory reporting requirements
- defines the authority required for key transactions, such as approving new borrowing, opening and closing bank accounts, and interest rate decisions

The Policy is also where CHA will set out the 'Golden Rules' governing its treasury management activity. These are defined performance levels for key indicators, such as cash on hand; covenant ratios; proportion of fixed and floating rate debt, and others that may be relevant to the Association's circumstances. These need to be tailored to the Business Plan and loan portfolio annually, but the Policy should otherwise only normally need to be reviewed on a three year cycle or if there are significant changes in the organisational strategy or funding environment, or to the CIPFA Code.

The Policy includes the key clauses recommended by CIPFA.

2.5. Treasury Management Practices

The CIPFA Code structures the Policy into 12 strands, which it refers to as Treasury Management Practices:

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

The CHA Policy is structured in the same way.

The key section, which defines the approach to the others, is TMP1, Risk Management. Section 3 of this guidance defines and outlines an approach to Treasury Risk Management which meets the requirements of the Code. TMP6 of the Code sets out CIPFA's recommended approach to developing, reporting and revising a TMS.

2.6. Treasury Management Strategy and Plan

The CHA Strategic Business Plan is where the CHA's ambitions, resources and constraints come together to produce a statement of the organisation's plans, targets and success measures for the forthcoming year and beyond, with a higher level view beyond current projects and development. Key to the plan's credibility is identifying funding needs and constraints, and outlining the response to them, which is provided by the Long Term Financial Plan and TMS. The Long Term Financial Plan (LTFP) sets out the Business Plan in financial terms, and the TMS provides a framework for the treasury management planning for the new Business Plan period, and can be developed as part of the LTFP or as a standalone document; the latter approach allows for refinement of strategy after approval of the LTFP.

The link between business planning and treasury management is a two way one; the business plan will identify funding needs, for example to support development and stock investment, which the treasury management strategy will need to address. The TMS will identify funding constraints that the Business Plan must work within, such as covenant limits, and identify how these will be monitored and reported to the Management Committee, and financial risks and opportunities that will need to be addressed, such as loans that will need to be refinanced and changes in the loan portfolio or funding environment that create the possibility of new and more attractive borrowing. It should also confirm compliance with lender and regulatory reporting requirements

2.7. Treasury Management Data

The starting point for developing a Policy is collating the relevant data.

A datasheet has been included to the LTFP which seeks to present, for each loan in CHA's portfolio, all the data required to develop a tailored TMP and to populate the SHR Loan Portfolio Return.

3. Treasury Management Risks

3.1. Risks Identified by CIPFA

TMP1 of CIPFA's code identifies the following treasury risks facing a public service organisation:

Ref	Risk	Definition
TMP 1.1	Credit and Counterparty	The risk of failure by a counterparty to meet its contractual investment or borrowing obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's resources
TMP 1.2	Liquidity	The risk that cash will not be available when it is needed, or that ineffective management of liquidity creates additional unbudgeted costs, compromising the organisation's business/service objectives.
TMP 1.3	Interest rate	The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances against which the organisation has failed to adequately protect itself.
TMP 1.4	Exchange rate	The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances against which the organisation has failed to adequately protect itself.
TMP 1.5	Inflation	The risk that the cash flows from treasury instruments (such as investments) will not be worth as much as projected in the future due to inflation.
TMP 1.6	Refinancing	The risk that maturing borrowings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, and/or that the terms are inconsistent with prevailing market conditions at the time.
TMP 1.7	Legal and regulatory	The risk that the organisation 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 organisation suffers losses accordingly.

Ref	Risk	Definition
TMP 1.8	Operational risk, including fraud, error and corruption	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.
TMP 1.9	Price	The risk that through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to adequately protect itself.

3.2. Building the Risk Map

If an RSL's Policy is to follow the CIPFA Code, the Policy must address the risks identified by CIPFA.

CHA addresses this by including Treasury Management Risk in the overall risk assessment and management process and Risk Map.

Inline with good practice in risk management, the CIPFA Code requires that, before developing a risk map, an RSL must first assess its appetite for treasury risk. This should be a Management Committee assessment, with advice from the Chief Executive, Finance Manager, and other senior staff and external advisors as appropriate. Appetite for treasury risk is likely to be limited, and in some aspects there will be zero appetite, such as covenant compliance.

Undertaking a risk appetite exercise will help CHA make better informed decisions, improve consistency of management of related issues and support focused performance management. The template should allow risk appetite to be classified on a scale including Averse, Minimal, Cautious, Open and Eager, which is based on a UK government finance framework. In general, risk appetite in treasury management should be no more than Cautious.

The Risk Map should be structured to follow the sequence of the CIPFA code, to demonstrate that each risk identified by CIPFA is addressed, with the assessment tailored for the particular circumstances facing CHA.

The following table identifies potential sub risks, and should be used as a checklist when completing the risk map.

Risk	Sub-Risks
Credit and Counterparty	Lender fails to honour drawdown request Deposit bank fails to honour repayment at maturity
Liquidity	Unexpected or mismanaged cashflow results in insufficient liquid funds to meet payment obligations Mismanaged cashflow results in excessive liquidity with no or minimal return Mismanaged cashflow results in higher than necessary or planned borrowing costs
Interest rate	Interest rate fluctuations create unplanned costs Higher than budgeted interest costs create risk of breach of relevant covenants
Exchange rate	Unexpected exchange rate movements create additional and unplanned costs Unexpected exchange rate movements increase the value of liabilities or reduce the value of assets Unexpected exchange rate movements create risk of breach of relevant covenants
Inflation	Higher than expected inflation increases the variable cost of funding and reduces ability to meet investment obligations Higher than expected inflation reduces the value of investments Lower than expected inflation reduces the value of investment income, and increases the effective value of future loan repayments
Refinancing	Maturing borrowings cannot be refinanced at costs or on terms assumed in the Business Plan, creating additional costs and / or more stringent covenant and security requirements
Legal and regulatory	Organisation fails to operate within legal powers, regulatory requirements or internal governance framework to the extent that lenders or regulators are forced to act

Risk	Sub-Risks
Operational risk, including fraud, error and corruption	Internal controls fail to prevent fraud or corruption (from internal or external sources, and including money laundering), resulting in financial and reputational damage Internal controls fail to prevent significant error in planning, reporting or decision making
Price	Movement in market value of non-cash investments fails to match or exceed inflation

3.3. Scoring the Risks

Once risks have been identified, they need to be scored. This should be in line with CHA's stated risk scoring methodology. Otherwise, the following approach is recommended:

- Each risk is assessed for probability (how likely it is to occur) and impact (how damaging it would be) separately, and awarded a score from 1 to 5 for each, on the following scale, on the basis that CHA has taken no action or implemented no controls to reduce the probability or mitigate the impact.
- The scores for probability and impact are then multiplied, to give a combined score out of 25. This is known as the *Gross Score*

	Probability	**Impact**
1	Remote	Negligible
2	Unlikely	Minor
3	Possible	Moderate
4	Likely	Significant
5	Almost certain	Major

- Thus, a risk that is judged as *possible* with *significant* impact before any actions or controls are implemented would be scored at (3*4) = 12
- Then, the controls which are currently in operation and the mitigations which are already available should be documented. This includes recording the post responsible for effective operation of the control, or for management of the mitigation, and a definition of the trigger that would require the mitigation to be implemented.

- A *control* is the process or procedure in place which reduces the probability of an adverse event occurring – for example, segregation of duties between authorising and making a transaction reduces the probability of error.
- A mitigation is an action that has been or can be taken to reduce the impact of an adverse event, such as holding sufficient insurance for potential property damage.
- By following the CIPFA structure for risk identification, the possibility of omitting a risk from the risk map in error is reduced. The template allows for a risk to be scored as having Probability of 0, so that a risk that is eliminated is evidenced as having been considered; this is most likely to be the case for Exchange Rate Risk, where most RSL TMPs specifically prohibit investing or borrowing in currency other than Sterling.
- Then, the risk is scored again, on the same scale, producing a Net Score which reflects the reduced probability as a result of the controls and / or lower impact as a result of the mitigations.
- So, if the combined effect of the controls and mitigations in place is to reduce the probability of a risk from *possible* to *unlikely* and its impact from *significant* to *moderate*, the net score is (2*3) = 6.

From this, a summary risk map can be produced, on the following format, with colour coding used to indicate the severity of the Risk assessment, which would inform the level of monitoring and contingency planning around each risk.

		Impact				
		1	2	3	4	5
		Negligible	Minor	Moderate	Significant	Major
Probability	Almost certain	5	10	15	20	25
	Likely	4	8	12	16	20
	Possible	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Remote	1	2	3	4	5

It is recommended that the Risk Map is reviewed and updated at least every six months, and reported to the Audit and Risk Committee.

3.4. Identifying the Policy Sections

The completed risk map and the collated data link to provide the scope of the Policy. The risks have been identified, and mapping them against the data allows for the development of proportionate policy statements, reporting and controls.

4. Golden Rules

4.1. Definition

Golden Rules is the term used to describe the key financial ratios that CHA will seek to maintain to ensure that its treasury management activity is effective, by providing adequate liquidity, appropriate management of risks and proper compliance with loan covenants,

Golden Rules should be set for each loan covenant, and performance measured at least quarterly. Their purpose is to alert management and the Management Committee to potential issues, under performance or non-compliance before it becomes critical. Management should be expected to alert the Management Committee and be able to explain why a Golden Rule is at risk of breach, and to describe how CHA will respond.

For CHA, Golden Rules should cover issues such as the following:

Description	Definition	How measured
Short Term Liquidity	As defined in TMP 1.2	Projected lowest level in next 3 months
Capital Funding Liquidity	As defined in TMP 1.2	Projected lowest level in next 24 months
Fixed and Variable Borrowing	Proportions of loans on fixed and variable terms. Policy requires fixed (including interest free) loans to be at least 60% of the total	'Variable' includes fixed arrangements which expire within 12 months. 'Fixed' includes loans which are interest free
Operating Surplus to Debt Service Liability	As defined in the 2006 RBS loan agreement – operating surplus adjusted by adding back depreciation and planned & cyclical repairs expenditure must be at least 100% of loan interest and repayments in every financial year	From the audited accounts, with the calculation certified by the external auditors

Description	Definition	How measured
Gearing Covenant	Borrowed monies must be no more than 35% of the Net Worth of the Association	Borrowed monies includes all debts; Net Worth is the total of retained surpluses plus unamortised government grant
Asset Cover (Valuation)	Most RSL loan agreements include a requirement for the value of housing stock be a minimum multiple of the loan value, usually 110% to 150% depending on the property valuation method. CHA's RBS agreements has no such requirement, but it does require 16 identified housing schemes to be secured to RBS	Most loan agreements require valuations to be updated every 3 years

4.2. Example of Golden Rules

A sample set of Golden Rules is set out in the table below;

- **Covenant level** is the minimum or maximum (as appropriate) level that the relevant loan agreement allows
- **Target level** is the minimum or maximum (as appropriate) level that represents an acceptable level of risk.
- **Trigger level** is the level at which it is reasonable for Management Committee to expect management to alert them to the potential risk, and be able to explain how the risk will be avoided or managed.
- The Target level will therefore always be more conservative than the Covenant.
- The Trigger level will always be more conservative than the Target.
- Interest Cover, Gearing and Valuation may require more than one Golden Rule as different loan agreements may have different calculation and covenant requirements. All should be monitored.

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Description	Definition	How measured	Covenant	Target	Trigger
Short Term Liquidity	As defined in TMP 1.2	Projected lowest level in next 3 months	N/A	£450,000	£500,000
Capital Funding Liquidity	As defined in TMP 1.2	Projected lowest level in next 24 months	N/A	£2,000,000	£2,500,000
Fixed and Variable Borrowing	Proportions of loans on fixed and variable terms. Policy requires at least 60% of debt to be fixed	‘Variable’ includes fixed rate arrangements which expire within 12 months. ‘Fixed’ includes debt which is interest free	N/A	60%	65%
Total Debt	All drawn debt and overdrafts	Quarterly projection for current and next financial year	N/A		
RBS Covenants					
Gearing	As defined in Loan Agreement, 11.1(a)	Annually from audited accounts	Maximum 35%	20%	25%
Operating Surplus to Debt Service Liability	As defined in Loan Agreement, 11.1(b)	Annually from audited accounts	Minimum 100%	At least 200%	150%

Target and Trigger levels are based on 2024/25 LTFP and should be revised for the 2025/26 LTFP when approved

5. Annual Treasury Management Cycle

5.1. Introduction

This table is intended to be used as a guide to develop a bespoke calendar for CHA's individual circumstances.

Abbreviations used are:

- CEO – Chief Executive
- FM – Finance Manager
- ARC – Audit Committee

For convenience, it is structured around the 2023/24 financial year.

5.2. Sample Treasury Management Cycle

Item	Date	Responsibility
Approve 30 year LTFP for new Financial Year, including: • Statement of Comprehensive Income, Statement of Cashflow and Statement of Financial Position • rent increase (assuming set in Jan / Feb) • existing stock investment programme, including quarterly spend profiles • development programme, with projected site acquisitions, site starts and completions • Loan drawdowns and repayments • Covenant compliance projections • Annual budget for 2023/24	No later than 31 May 2023	FM reporting to Management Committee
Ensure insurance renewal notes RBS interest in properties; provide certificate of cover to RBS if required	As required in loan agreements, or as requested by RBS	FM
Develop TMS (see TMP 1) to support LTFP, and report to Committee	No later than 31 May 2023	FM reporting to Management Committee
Complete SHR Five Year Projections, and confirm Management Committee approval	Submission deadline is 31 May	FM

Item	Date	Responsibility
Complete SHR Loan Portfolio Return	Submission deadline is 30 June	FM
Submit audited accounts and audit management letter to SHR	By 30 Sept	FM
Submit audited accounts, management letter, covenant compliance certificate to RBS	Deadline in loan agreement is 270 days, but good practice to submit when filing with SHR and FCA by 30 Sept	FM
File audited accounts with FCA	By 30 Sept	FM
File audited accounts with OSCR	By 31 Dec	FM
Qtrly Management Accounts, including Income and Expenditure, Cashflow, Balance Sheet and details of voids, bad debts and arrears.	Within 70 days of quarter end	FM

In addition, most RSL loan agreements will include a range of other information that must be notified to lenders, either in a specified number of days or as soon as reasonably practical. It is recommended that these are identified for each loan agreement, and recorded in the Data Sheet.

The RBS agreement includes:

- Copies of all information supplied to and notifications received from the SHR, and details of any regulatory inquiry, investigation or action by the SHR
- Copies of any regulatory (SHR, OSCR, FCA) or government notification regarding the RSL's activities and actions
- Details of any relevant litigation
- Details of any adverse changes in cashflows leading to Material Adverse Effect
- Prompt notification of any event or potential event of default, and steps taken to remedy it

The RBS loan agreement, because of its age, has fewer information obligations than is now typical in the sector. Good practice would be to notify RBS of:

- any change in members of the Management Committee, especially officeholders
- any change in CEO, FM and other executive posts; there may also be an expectation to supply the CV of new appointees to these posts

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Appendix A - Extract from SHR Regulatory Framework - Standards of Governance and Financial Management for RSLs

Standard 3

The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay.

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

3.2 The Management Committee 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.

3.3 The RSL has a robust business planning and control framework and effective systems to monitor and accurately report delivery of its plans. Risks to the delivery of financial plans are identified and managed effectively. The RSL considers sufficiently the financial implications of risks to the delivery of plans.

3.4 The Management Committee ensures financial forecasts are based on appropriate and reasonable assumptions and information, including information about what tenants can afford to pay and feedback from consultation with tenants on rent increases.

3.5 The RSL monitors, reports on and complies with any covenants it has agreed with funders. The Management Committee assesses the risks of these not being complied with and takes appropriate action to mitigate and manage them.

3.6 The Management Committee ensures that employee salaries, benefits and its pension offerings are at a level that is sufficient to ensure the appropriate quality of staff to run the organisation successfully, but which is affordable and not more than is necessary for this purpose.

3.7 The Management Committee ensures the RSL provides accurate and timely statutory and regulatory financial returns to the Scottish Housing Regulator. The Management Committee assures itself that it has evidence the data is accurate before signing it off.

Appendix B - Treasury Management Glossary

Term	Definition
Amortising Repayment	A type of loan with scheduled, periodic payments that are applied to the loan's principal over the life of the loan.
Arrangement Fee	A fee payable by the borrower to the lender when a loan agreement is agreed, usually measured as a % of the loan amount and typically a maximum of 1%
Asset Cover	The ratio of the value of housing stock secured to a lender compared to the value of the outstanding loan. Usually expressed as a percentage, such as value must be at least 125% of outstanding loan
Asset Management	Ensuring that current and future assets (houses, land, garages, shops etc) fully support the organisation’s objectives – working towards having the right assets, of the right quality, in the right place, at the right time generating appropriate value to the business plan and 30 year cashflows.
Audit and Risk Committee	The committee of the governing body responsible for scrutiny of controls, risk and assurance, as set in the SHR Standard no 4.5. The Committee’s remit is set out in the CHA Standing Orders
Base Rate	Bank of England Base Rate – the key reference rate for borrowing in the UK. Also referred to as Bank Rate
Basis Point (BP)	1/100 of 1%, or 0.01%. Loan margins are often described in Basis Points, such as ‘150bp’ which equals 1.50%
Bonds	Debt instrument where an investor lends an agreed amount of funds for a defined period of time at a defined rate to an organisation. Corporate bonds are bonds issued by companies, including many larger RSLs
Break Cost	The amount to be paid if a fixed interest rate contract is terminated early, usually calculated as the value of the fixed rate interest compared to the market rate at the date of the break.
Budget	The detailed projection of income and expenditure for a financial year, which is used as a target and monitoring tool, by staff and Management Committee

Term	Definition
Bullet Repayment	A lump sum payment made to repay the entirety of an outstanding loan amount, usually at maturity.
Business Continuity Planning	Prepared and tested measures for protection of critical business operations from the effects of a loss, damage or other failure of operational facilities.
Business Plan	A document setting out a landlord's aims and objectives and its financial plans and resources for a specific period.
Capital Expenditure	Expenditure to acquire or improve a long-term asset. Includes new build development and component replacement, such as kitchens, bathrooms, roofs etc.
Capital Receipts	Money obtained on the sale of a capital asset.
Cashflow	An accounting term describing the amounts of cash being received and spent by an organisation during a defined period of time, and the management of the cash receipts and payments of a business to ensure cash balances remain sufficient to ensure debts are paid as they fall due
CCAB	Consultative Committee of Accountancy Bodies. The body that represents the chartered accountancy bodies of the UK and Ireland (ICAS, ICAEW, CAI, CIPFA, ACCA, CIMA)
CIPFA	The Chartered Institute of Public Finance and Accountancy, the professional body for accountants working in local government and other public sector organisations, and the standard setting organisation for local government and public service finance
Contingency Plans	Alternative plans to cover what the organisation will do if circumstances change and the original plans will not work.
Cost of Carry	The difference between what is paid to borrow compared to the interest which could be earned. For example, if you take out borrowing at 5% and invest the money at 1.5%, there is a cost of carry of 3.5%.
Counterparty	A bank or other institution with whom a borrowing or investment transaction is made.
Counterparty List	List of approved financial institutions for investing and borrowing

Term	Definition
Counterparty Risk	The risk of failure by a counterparty to meet its contractual obligations to a borrower or depositor
Covenant	A promise in a loan facility agreement, that defined financial ratios and thresholds will be met or that certain activities will or will not be carried out. Failure to adhere to a covenant is an event of default
CPI	Consumer Price Index – the UK's main measure of inflation.
Continuous Professional Development (CPD)	The professional requirement to complete defined amounts of training to ensure a qualification is maintained at the appropriate standard
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees. The main rating agencies are Fitch, Standard and Poor's, and Moody's.
Cross Default	Terms in a loan agreement with one lender which state that default with another lender is an event of default
Default	The legal term for breaking the terms of a loan agreement
Derivative	A contract that passes the interest rate risk in a loan from one party to another, for a premium. For example, an RSL with a variable rate debt with Bank A may agree to swap the variable interest for a fixed rate payment to Bank B – the interest rate risk passes to Bank B, which will charge the RSL a premium for so doing.
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation – the accounting term that defines operating surplus adjusted by adding back non-cash costs and deducting non-cash income; the precise calculation will be set out in the Loan Agreement. Used as an indicator of the overall profitability and cash generation of the business EBITDA is now customarily used in place of the Operating Surplus to Debt Service Liability in CHA's RBS agreement

Term	Definition
EBITDA-MRI	EBITDA with further adjustments to add back the cash spent on Major Repairs and Improvements to the housing stock, to get closer to the cashflow before loan drawdowns and repayments, and interest; the precise calculation will be set out in the Loan Agreement
EUV-SH	Existing Use Value – Social Housing – the usual valuation method for social housing which recognises that the stock must be used to provide rented housing at social rents, and not be sold. Calculated by totalling rental income over a 30-year period, minus management, maintenance and component replacement costs, with the net figure discounted to allow for inflation.
Financial Forecast or Projection	A projection of the organisation's expected financial position based on expected conditions.
Financial Reporting	The process of producing information that disclose an organisation's financial status to appropriate stakeholders.
Finance Committee	The committee to which many but not all Management Committees delegate responsibilities and duties for oversight of financial planning and reporting through its Standing Orders and Committee remit process.
Fixed and Variable Costs	Fixed costs do not vary with activity, eg cost of Management Committee support; variable costs do, eg repair costs per unit
Fixed Interest Rate	Interest which is fixed for a defined period, which may be all or part of the term of a loan
Fixed Loan	Loan which cannot be repaid without penalty until a defined date, and on which interest is at a fixed rate. The RSL has certainty of funding and cost, but little flexibility if plans change
Floating (or Variable) Interest Rate	Interest which varies in line with a defined reference rate, which will usually be Base Rate or SONIA, as agreed in the loan agreement.
Floating Loan	Loan which can be repaid at a date of the RSL's choice, and on which interest is at a floating rate. The RSL has flexibility in the amount of debt, but is at risk of adverse interest rate movements

Term	Definition
Gearing	The level of debt used to support operations, and the ratio of the total historic cost of housing stock to outstanding loans; the precise calculation will be set out in the Loan Agreement - sometimes measured against retained reserves rather than assets. When there is a high proportion of debt to assets the association is said to be highly geared.
Gilts	Gilts are bonds issued by the UK Government. They are deemed to be very secure and therefore low risk as the investor expects to receive the full face value of the bond to be repaid on maturity.
Golden Rules	Golden Rules define key indicators that must be monitored, and set out the frequency of reporting and the performance levels that triggers the need for corrective action
Governing Body (Management Committee)	The Management Committee of an RSL
Governing Body Member	A member of the Management Committee of an RSL
Hedging	A strategy to limit risks by taking an offsetting position. The Association enters into fixed interest rate contracts to reduce the exposure to variation in interest rates.
Interest Cover	A measure of the extent to which operating surplus covers interest payments due on loans. It is expressed as the surplus as a ratio of interest payable. Calculation of both surplus and interest will be defined in detail in the loan agreement
Liquidity Risk	The risk that cash will not be available when needed and that the association's business/service objectives will be compromised
Loan Aggregator	A lender that aggregates the funding requirements of several RSLs together to generate a total large enough to support a bond issue; most well known is THFC (The Housing Finance Corporation)
Loan Agreement	The legal agreement between an RSL and its lender, setting out the amount, terms, rates, security and covenant requirements for each loan

Term	Definition
Loan Facility	The total amount of debt made available by the loan agreement
Loan Margin	The percentage added to Base Rate or SONIA to fund the lender's risk and profit, and to give the total interest risk of a variable rate loan
Key Performance Indicator	A set of quantifiable performance measures used regularly and consistently to assess how well an organisation is achieving its objectives or performing in particular activities. Each performance indicators should be compared with a pre-set standard (a benchmark), consistent measures from other organisations, prior periods and clearly defined targets
Maturity	The date when an investment or borrowing is repaid.
Maturity Structure / Profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.
Money Laundering	Activity which has the objective of concealing the origin of money generated through criminal activity. Legislation has increased the responsibilities of organisations to be able to identify and report suspicions of money laundering
MV-T	Market Value Subject to Tenancy. A valuation method that applies to properties that can be theoretically sold outside of the social housing sector and which allows for a potential sale or private rent, generating a higher value that EUV-SH.
Negative Pledge	An obligation on a borrower in a loan agreement not to allow a third party to have security over an asset secured to a lender
Non Utilisation Costs	The cost charged by lenders on undrawn but available funds, usually set at 40-50% of the margin
Options Appraisal	A structured process for considering alternative choices against appropriate evaluation criteria in order to optimise the achievement of strategic objectives
Peak Debt	The highest forecast level of borrowing in the financial plans, usually measured over 30 years
Private Finance	Funding borrowed from a private sector lender such as a bank or building society

Treasury Management Guidance

Term	Definition
Private Placement	Debt instrument where an investor lends for a defined period of time, as opposed to a bond sold through a public offering.
Procurement	The way an organisation obtains services or materials from other organisations or agents.
Reference Rate	The rate which is defined in a loan agreement as the basis for variable rate, and to which the lender's margin is added to give the rate payable. Normally, either Bank of England Base Rate or SONIA are used
Refinancing Risk	The risk that significant amounts of debt fall due and need to be replaced at a time when the lending markets are not favourable, meaning cost of new debt will be higher
Revolving Credit Facility (RCF)	A loan which can be drawn, repaid and then drawn again, over a period of years – similar to a personal overdraft, but with security required.
Risk Management	The process of defining and analysing risks, and then deciding on the appropriate course of action in order to minimise and mitigate these risks.
Scenario Planning	A process of visualising and testing what might happen to affect the organisation's business, what the likelihood and impact would be and how to respond.
Security	The granting of a mortgage over the RSL's housing stock to its lenders, which allows the lender to claim the proceeds from sale of the property to meet outstanding liabilities if the borrower fails to meet repayment obligations
Security Trustee	A security trustee holds security over property on behalf of the owner, and assigns the benefit of that security to one or more lenders as directed by the owner, with the aim of reducing the cost and increasing the flexibility of managing complex security packages and loan portfolios
Sensitivity Analysis	Investigation into how projected performance varies along with changes in the key assumptions on which the projections are based.

Treasury Management Guidance

Term	Definition
SONIA	The Sterling Overnight Index Average. The overnight interest rate paid by banks for unsecured transactions in the British sterling market in circumstances where credit, liquidity and other risks are minimal. It is the usual reference rate for UK corporate lending
Strategic Objective	A target that an organisation should achieve to make its strategy work.
Stress Test	A test that looks at the impact on an organisation's business plan of a major change in one or more variables in order to see what impact this would have.
Swap	An agreement between borrower and lender to exchange one cashflow (usually variable) for another (usually fixed), which has the effect of turning a variable rate loan into a fixed rate one for a defined period.
Syndicates	Arrangements where funds from more than one lender are aggregated and managed by a one lead lender through one loan agreement
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Term Loan	A loan for a specified amount that has a specified repayment schedule
Treasury Management	The management of the organisation's borrowings, investments and cash flows, its banking, money market and capital market transactions and loan management; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009, 2011, 2017 and 2021
Treasury Management Policy	Policy document defining and describing treasury management risks and controls, including reporting and monitoring cycles

Treasury Management Guidance

Term	Definition
Treasury Management Practices	Treasury Management Practices set out the manner in which the Association will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Treasury Management Strategy	Planning document setting out the treasury management actions needed to deliver the financial business plan
Undrawn Debt	Loans which have been arranged in the Loan Facility, but have not yet been drawn as cash
Unencumbered Property	A property that is clear of debt or claims from third parties in the form of mortgages or loan security charges, and thus can be used to provide security for new debt.
Valuation	The value of the housing stock used for security. Usually expressed as %age of the loan amount (eg 120% of loan value). New valuations are typically required every 3 – 5 years