



TREASURY MANAGEMENT POLICY STATEMENT

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ORE VALLEY HOUSING ASSOCIATION

TREASURY MANAGEMENT POLICY STATEMENT

1. The Scottish Housing Regulator requires Scottish Associations to have “a treasury management strategy (“TMS”) covering the management of its cash flows, its banking, money market and capital market transactions, and the effective control of the risks associated with those activities in pursuit of the optimal performance consistent with its business objectives.” Treasury management refers to the set of policies, strategies and transactions that an RSL adopts and implements to raise finance at acceptable cost and to manage its cash resources and interest rate risk.
2. The objective of good treasury management is to ensure that RSL’s always have access to sufficient resources to operate their business and that these are available in a timely manner at reasonable cost.
3. It is the Board’s responsibility to ensure the Association employs appropriately qualified and experienced staff, to formulate and implement treasury management policy and procedures and appropriate controls. It is therefore important to be clear about the definition of treasury management and ensure the policy and strategy is comprehensive.
4. This Association adopts the key principles of the Chartered Institute of Public Finance & Accountancy (“CIPFA’s”) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 edition) (“the Code”) as described in section 4 of that Code.
5. Accordingly, the Association will create and maintain, as the cornerstones for effective treasury 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 Association will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the CIPFA Code, subject only to amendment where necessary to reflect the particular circumstances of the Association. Such amendments will not result in the Association materially deviating from the CIPFA Code’s key principles.

6. The Finance Audit and Risk Management (“FARM”) committee and Board will receive the annual strategy report as recommended in the CIPFA Code and will also receive reports on its treasury management policies, practices and activities, including, as a minimum, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. They

are responsible for ensuring effective scrutiny of the TMS and policies and the provision of assurance that there are adequate controls in place and to regularly monitor treasury management performance.

7. The Association delegates responsibility for execution and administration of treasury management decisions to the Finance Agent, who will act in accordance with the Association's policy statement and TMPs.

THE TREASURY MANAGEMENT POLICY

8. Ore Valley Housing Association (“OVHA”) defines its treasury management activities as:

“The management of the organisation’s 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”.

9. OVHA 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 for the organisation.

10. OVHA 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 to employing suitable performance measurement techniques, within the context of effective risk management.

Key Performance Areas:

- A. The Finance Agent will oversee the treasury management function within the Association and will report annually on the Association’s planned treasury management activities and after the close of the year in the format agreed within the Treasury Management Practices adopted by the Association.
- B. The Finance Agent will, in conjunction with the Chief Executive and Management Team, ensure compliance with all statute, regulations and avoid triggering ‘events of default’ as outlined in any loan documents.
- C. The Finance Agent will report quarterly to the FARM if there have been any new Treasury Activities in the quarter and six monthly to the FARM and Board on Treasury activities.
- D. The Finance Agent is to report on the Association’s overall cash flow situation on a quarterly basis through the Management Accounts.

Treasury Practices Statement 6 in this report sets out the Reporting Parameters.



TREASURY MANAGEMENT PRACTICES STATEMENTS

The CIPFA “Treasury Management in the Public Services – Code of Practice” outlines twelve treasury management practices (TMPs). These outline the approach the Association should take in delivering its treasury management policy.

TMP1 RISK MANAGEMENT

Risk is defined by the code as

“The risk of failure by a counterparty to meet its contractual obligations to the Association under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty’s diminished creditworthiness, and the resulting detrimental effect on the Association’s capital or current (revenue) resources”.

The Finance Agent 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 thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Association’s objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting and management information arrangements**. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedules to this document.

(i) credit and counterparty risk management

This Association regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques* listed in the schedule to this document

(ii) liquidity risk management

The Association will ensure it has adequate though not excessive cash resources, borrowing arrangements and overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Association will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

(iii) interest rate risk management

The Association will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with **TMP6 Reporting requirements and management information arrangements**.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

(iv) exchange rate risk management

The Association will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. However, given the Association's activities it is unlikely that it will be exposed to any exchange rate risk.

(v) refinancing risk management

The Association will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Association as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

(vi) political, legal and regulatory risk management

The Association will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under **TMP1(i) credit and counterparty risk management**, it will ensure that there is evidence of counterparties' powers, Association and compliance in respect of the transactions they may effect with the Association, particularly with regard to duty of care and fees charged.

(vii) fraud, error and corruption, and contingency management

The Association will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures and will maintain effective

contingency management arrangements to these ends.

viii) market risk management

The Association will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 PERFORMANCE MEASUREMENT

The Association is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Association's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP3 DECISION-MAKING AND ANALYSIS

The Association will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Association will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMP1 Risk management**.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Association considers it essential, for the purposes of the effective control and monitoring

of its treasury management activities, for the reduction of the risk of fraud or error and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Association intends, as a result of lack of resources or other circumstances, to depart from these principles, the Finance Agent will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Finance Agent will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and arrangements for absence cover. The Finance Agent will also ensure that, at all times, those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Finance Agent will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Finance Agent in respect of treasury management are set out in TMP5. The Finance Agent will fulfil all such responsibilities in accordance with the Association's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Association will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

Board will receive an annual report on the strategy and plan to be pursued in the coming year.

As a minimum, Board will receive:

- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Association's treasury management policy statement and TMPs.

The Financial Audit and Risk Management Committee ("FARM") will receive quarterly monitoring reports on treasury management activities and risks and will have responsibility for the scrutiny of treasury management policies and practices and will provide assurance that there are adequate controls in place to regularly monitor treasury management performance.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Finance Agent will prepare, and FARM will approve and, if necessary, from time-to-time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management**, **TMP2 Performance measurement**, and **TMP4 Approved instruments, methods and techniques**. The form which the Association's budget will take is set out in the schedule to this document.

The Finance Agent will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements**.

The Association will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force at that time.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Association will be under the control of the Finance Agent, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Finance Agent will ensure that these are adequate for the purposes of monitoring compliance with **TMP1 (ii) liquidity risk management**. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

The Association is alert to the possibility that it could 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 involved in this area are properly trained.

TMP10 TRAINING AND QUALIFICATIONS

The Association recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Finance Agent will recommend and implement the necessary arrangements.

The Finance Agent will ensure that Board Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those members charged with governance should recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Association recognises that responsibility for treasury management decisions remains with the Association at all times. However, it recognises that there may be potential value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review. It will ensure that, where feasible and necessary, a spread of service providers is used to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

The monitoring of such arrangements rests with the Finance Agent and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

The Association 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 activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Association has adopted and has implemented the key principles of the CIPFA Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management and the Finance Agent will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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TMP 1 Risk management

1.1 Credit and counterparty risk:

The overriding principle guiding the investment of surplus cash balances is the preservation of the capital value of The Associations resources.

The Finance Agent is authorised to deposit or invest funds, only with the approval of the FARM.

The Finance Agent is responsible for monitoring the creditworthiness of approved deposit takers using credit agency reports and limiting exposure below the approved limits where appropriate. Individual limits can only be exceeded with the prior approval of the Finance Committee.

1.1.1 Policy on the use of credit risk analysis techniques

- i. The Association will use credit criteria in order to select creditworthy counterparties for placing investments with.
- ii. Credit ratings will be used as supplied from all three rating agencies
 - Fitch,
 - Moody's,
 - Standard & Poors.
- iii. The Association's Finance Staff will obtain all ratings relevant to the Association.
- iv. The Association will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use

other sources of information including:

- the quality financial press
- market data
- information on government support for banks and the credit ratings of that government support.

1.1.2 Criteria for Counterparties

It is worth mentioning Moody's is currently very much more aggressive in giving low ratings than the other two agencies. This may mean it would be unworkable and leave few banks on its suggested lending list if just Moody's ratings were used. A scoring system may therefore be needed to incorporate all three ratings agencies.

1.1.3 "High" credit quality

The Association has adopted the following in respect of defining a "high" credit quality:

Long Term Ratings (longer than 12 months):

Permitted Fitch Ratings	Permitted Moody's Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings (less than 12 months):

Permitted	Permitted	Permitted
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Fitch Rating	Moody's Rating	S&P Rating
F1+	N/A	A-1+
F1	P-1	A-1

*Note: **Nationalised banks** in the UK have credit ratings which do not conform to the credit criteria usually used to identify banks which are of high creditworthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their standalone financial strength. Accordingly, Fitch has assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible. However, the Credit Rating Agencies have signalled their intention to remove the Sovereign support notches they have incorporated into their ratings. This may mean that several banks are likely to lose A-1/P-1 short-term ratings but most are expected to retain their long-term investment grade*

Any institution that drops below any of the above ratings will not be considered for investments, unless the reason for the drop is purely down to the removal of the sovereign support notches by the Rating Agency. In which case, the underlying financial strength of the institution should be considered. The most risk free approach to dealing with surplus funds is to repay borrowing, a cost benefit analysis comparing the financial benefits of investing against the costs saved by repaying borrowing will be done for each sum available. This option will only be available to the Association if it has sufficient cash surpluses over and above operational cash requirements. It is unlikely that the Association will be in such a position in the near future. Given the fact that repayment of borrowing will be the preferred option in terms of risk and that cash flow planning will keep surpluses to a minimum it is believed the above criteria are sufficient and other methods of measuring the risk of a company, such as credit data swaps will not be required.

A list of Institutions that have a high enough credit rating to invest with will not be maintained as it will be too time consuming to create and keep up to date in relation to its use given the approach detailed below. Instead counterparties will be checked individually before investing and so ensure the latest rating is used.

Building Societies are not rated by the rating agencies but the Association will use those Building Societies from whom we borrow funds. By applying this criteria the Association is complying with the CIPFA suggested guidance in respect of using the lowest common denominator.

In summary and considering the risks inherent in the market together with the poor returns available the Investment Process would be to:

- *assess the cashflow requirements;*
- *following that process any remaining surplus funds should be placed first in deposit accounts with our loan providers, subject to the limits below.*
- *alternative investment accounts to those of our loan providers will only be considered only if they meet the Associations High Quality Credit Rating detailed above. The reasoning for following this course of action will be reported to scrutiny in the quarterly activity report.*
- *Country limits*

The Association will not invest in countries outside the UK.

1.1.4 Group/Institutions - Counterparty Criteria/Limits

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	2m	Up to 2 years	As Per Rating List
Building Societies	2m	Up to 2 Years	Only invest in those that we have borrowings with.

1.1.5 The Finance Agent is responsible for monitoring the terms and conditions offered by counterparties. Where he/she has reason to believe that counterparty's standing is or may become impaired, he should advise the FARM at its next meeting.

1.1.6 The Association may borrow from:

- Banks
- Building Societies
- Financial Institutions (pension Funds, insurance Companies etc.)
- The Bond Markets (either through an intermediary or in BHA's own name)
- Not for profit specialist intermediaries such as the Housing Finance Corporation

1.1.7 Loan facilities will be arranged only with organisations that are judged to have sufficient financial strength to ensure that the funds committed under the facilities will be available as and when they are required by The Association in accordance with the terms of the loan agreement. This will normally mean that lending organisations are at least

investment grade and able to demonstrate a long-term commitment to the social housing sector.

1.1.8 OVHA's current lenders are:

- Royal Bank of Scotland

1.2 Liquidity risk:

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Association's business/service objectives will therefore be compromised.

1.2.1 On a daily basis the Association aims to minimise the balance held in the Association's main bank accounts. By so doing, the optimum amount of cash held for cashflow purposes is invested so affecting the best possible return on the Association's cash.

1.2.2 Cash is invested on the basis of maximising the return by means of the most favourable interest rates, subject to ensuring the security of the investment, whilst also allowing instant access to a level of cash for use if necessary.

1.3 Interest rate risk:

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Association's finances, against which the Association has failed to protect itself adequately.

1.3.1 Interest rate risk exposure arises when changes in interest rates affect the Associations liabilities. The largest interest rate risk is having insufficient funds to service its debts. Fixing the interest rate removes the interest rate risk, but this creates an inflation risk. Therefore, the Association needs to have a balance between fixed and variable interest debt. The balance chosen will depend upon the Association's appetite for risk. However, with income largely controlled the approach should be to have certainty of costs and therefore fix the greater proportion of debt. While there is no 'right' answer, the CIPFA Housing Association Panel guide suggests the maximum level for variable debt should be 30% to 40%.

1.3.2 The Association will aim for a loan portfolio consisting of loans which have a 70:30 mix of fixed and floating rate debt to ensure that the Association is not overly exposed to movement in interest rates. This 'target' split will be subject to +/-10% tolerance.

1.4 Exchange rate risk:

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Association's finances, against which the Association has failed to protect itself adequately.

- 1.4.1 The Association does not take on exchange rate risk, it is the Association's policy to deal only in sterling.

1.5 Refinancing risk:

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the association for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

- 1.5.1 The Association has a 30 year plan for forecasting its income and expenditure which incorporates projected capital investment requirements (committed development schemes and component replacements in properties for 30 years) and the revenue consequence. This plan is an internal document for treasury purposes and also provides comfort for funders that the Association can fulfil its loan obligations. The plan is also submitted to the Scottish Housing Regulator and our lenders. These revenue consequences are reflected in the revenue budgets.
- 1.5.2 The Association's policy is it will always ensure it has sufficient facilities available to fund the committed development programme for the following 12 months.
- 1.5.3 Debt maturity profiling is monitored by the Finance Agent. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous. The reasons for any rescheduling to take place include:
- the generation of cash savings at minimum risk
 - to reduce the average interest rate
 - to amend the maturity profile and/or the balance of volatility of the debt portfolio.

All rescheduling will be reported to Board as soon as is practicable.

1.6 Legal and regulatory risk:

The risk that the Association 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 Association suffers losses accordingly.

1.6.1 The Association is a registered with the Scottish Housing Regulator (registration number HAL 236) and is a registered charity (registration number SC031773. It is also registered with the Financial Conduct Authority (registration number 2382RS)). The treasury management activities of the Association comply fully with legal statute, guidance, Codes of Practice and the regulations of the Association.

1.6.2 **Procedures for evidencing the Association's powers/authorities to counterparties**

Investments are made only to institutions which match the Associations credit rating criteria from the credit ratings supplied by Fitch, Moody's and Standard & Poors and the Building Societies from whom the Association has outstanding borrowings.

Borrowings are made from major institutions regulated by the Financial Conduct Authority.

1.6.3 **Statement on the Association's Political Risks and Management of the same**

The Finance Agent will take appropriate action with the Chief Executive and the Chairman of Board to respond to and manage appropriately political risks such as a change of Government, etc.

1.6.4 **Finance Agent**

The duty of this officer is to ensure that the financial affairs of the Association are conducted in a prudent manner and to make a report to the Association if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, error and corruption, and contingency management risk:

The risk that the Association fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

1.7.1 The Association will:

- seek to ensure that there is an adequate division of responsibilities and an adequate level of internal check to minimise such risks.
- fully document all its treasury management activities so that proper procedures are made known.
- ensure that staff taking up treasury management activities have proper training in procedures and are subsequently subject to an adequate and appropriate level of supervision.
- ensure that records are maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.
- ensure that all staff comply and adhere to the TMP policy and the financial regulations and procedures held and maintained by the Association

1.7.2 Details of Systems and Procedures to be followed

Association:

- All loans and investments are carried out by authorised persons.
- Loan procedures are defined in the Association's Financial Regulations.

Procedures:

- The Association uses an electronic banking system the users are noted in the Association's Financial Regulations. All transmissions are checked to ensure that allowed counterparties have been used and that the limits to counterparties have not been exceeded.

Investment and borrowing transactions:

- A detailed register of loans and investments is maintained.
- A written acknowledgement of each investment deal is sent promptly to the borrowing institution.
- Written confirmations received in respect of investments and borrowings are checked for accuracy and any discrepancies are immediately dealt with.

Regularity and security:

- Investments are made only to institutions which meet the Associations credit rating criteria.
- There is a separation of duties between the staff involved in transacting treasury management activities and those checking and authorising the deals and payments.
- The Association's bank holds a list of the Association's authorised signatories for financial transactions.
- The Finance Assistant is not an authorised signatory.
- The electronic banking system can only be accessed with a password.
- The Association has adequate insurance cover for employees involved in loan management and accounting.

1.7.3 Emergency and Contingency Planning Arrangements

- The Association has a Business Continuity Plan in the event that offices are rendered unusable.
- The electronic banking system is web based and can therefore be accessed from any PC with the use of a password and security device.

As such, Authorised approvers carry their security devices with them rather than keep them in the workplace.

- All computer files are accessible from remote sites and a back up of all servers/files is kept off the main site.

1.7.4 Insurance Cover details

The Association's Insurance brokers are Bruce Stevenson and maintains full insurance against fraud and theft.

1.8 Market Risk:

The risk that, through adverse market fluctuations in the value of the principal sums the Association borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Association will not invest in products where the capital value of these can fluctuate if they are redeemed prematurely of the maturity date.

TMP 2 Performance Measurement

2.1 Evaluation and Review of Treasury Management Decisions

The Association has a number of approaches to evaluating treasury management decisions:

- **Quarterly Monitoring Reports:**
A quarterly monitoring report on treasury management activity will be presented to the Board.
- **Annual Review after end of financial year:**
The statutory Annual Review Report required by 30th September each year is submitted to Board. In practice, this review will be presented at the same time as the Statutory Accounts. This report reviews the previous year's performance and contains the following:
 - i. total debt and investments at the beginning and close of the financial year and average interest rates;
 - ii. the strategy for the year;
 - iii. activity in the year;
 - iv. comparison of return on investments to the budgeted return
 - v. other relevant ad hoc information.
- **Comparative Reviews:**
When data becomes available a comparative review is undertaken to see how the performance of the Association on debt and investments compares to other Housing Associations.
- **Audit:**
The Treasury Management function is subject to internal and external audit checks.

2.2 Benchmarks and Calculation Methodology

2.2.1 Debt Management:

- Average rate interest cost on all external debt

- Gearing
- Interest Cover
- Security Cover

These will be calculated as follows:

$$(i) \quad \text{Average Rate Interest Cost} = \frac{\text{Total interest}}{\text{Total Borrowings}} \times 100$$

- (ii) *Gearing, Interest Cover and Security*
This will be based on the methods required by each lender.

2.2.2 Investments:

- 1 month uncompounded London Interbank Bank Bid rate (LIBID)

LIBID is the interest rate London banks pay for deposits from other banks, unlike LIBOR, which is the rate at which banks lend money.

2.3 **Policy concerning methods for testing value for money in treasury management**

2.3.1 Banking services:

Banking services have been provided by the Royal Bank of Scotland. Bank charges have been compared with other banks and have been found to be very competitive.

2.3.2 Money-broking services:

It is not the Association's current policy to appoint external money-broking services. If the policy were to change, all brokers to be considered must regulated by the Financial Conduct Authority.

2.3.3 Consultants/advisors services:

The Association's policy is not to appoint full-time professional Treasury Management Advisors but rather appoint such consultants when specialist advice is required.

2.3.4 External Fund Managers:

It is not the Association's current policy to appoint external investment fund managers. This is because it is felt that, at present, the appointment of such managers would not justify the investment of senior management time in terms of the expected

marginal return over what can be achieved internally, given the low levels of surplus cash that the Association currently holds. Appointment of external providers rest with the Board of Management and is subject to the normal tendering procedures.

TMP 3 Decision-making and analysis

3.1 Funding, borrowing, lending and new instruments/techniques

3.1.1 Records to be kept:

- statutory documentation
- register of loans and all associated paperwork
- register of investments and all associated paperwork

3.1.2 Processes to be pursued:

- cashflow analysis.
- debt and investment maturity analysis
- ledger reconciliation
- review of opportunities for debt restructuring
- review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- performance information e.g. monitoring of actuals against budget for debt charges, interest earned, debt management and monitoring of average debt rate, investment returns, etc.

3.1.3 Issues to be addressed:

In respect of every treasury management decision made the Association will:

- be clear about the nature and extent of the risks to which the Association may become exposed with reference to the CIPFA Code of Practice giving priority to security of capital and liquidity before yield

- be certain about the legality of the decision reached and the nature of the transaction and that all authorities and approvals to proceed have been obtained
- be content that the documentation is adequate both to deliver the Association's objectives, protect the Association's interests and to deliver good housekeeping
- ensure that third parties are judged satisfactory in the context of the Association's creditworthiness policies and that limits have not been exceeded
- be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

In respect of borrowing and other funding decisions, the Association will:

- evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the ongoing revenue liabilities created and the implications for the Association's future plans and budgets.

In respect of investment decisions, the Association will:

- consider the optimum period, in the light of cash flow availability and prevailing market conditions
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the Association to changes in the value of its capital.

TMP 4 Approved instruments, methods and techniques

4.1 Approved activities of the treasury management function

- borrowing
- lending
- debt repayment and rescheduling

- managing the underlying risk associated with the Association’s capital financing and surplus funds activities
- managing cash flow
- banking activities
- leasing
- managing the underlying exchange rate risk associated with the Association’s business

4.2 **Approved instruments for investment**

The Association will undertake its treasury management activities by employing only those instruments, methods and techniques which it is permitted to do so under the Association’s rules.

4.3 **Approved Methods and Sources of Raising Capital Finance**

The Association has a limited number of approved methods and sources of raising capital finance as follows:

On Balance Sheet	Fixed	Variable
Market Loans (long-term)	x	x
Market Loans (temporary)	x	x
Other Methods of Financing		
Lottery monies		
MAW Funding		
Operating Leases		

Borrowing will only be done in Sterling. All methods of funding will be considered dependent on the prevailing economic climate, regulations and local considerations and will be subject to approval from the Board of Management.

4.4 **Investment Limits**

The Annual Investment Strategy sets out the limits and the guidelines for use of each

type of investment instrument.

4.5 **Borrowing Limits**

There are no borrowing limits other than the limits placed by the Gearing Covenants agreed with our loan providers.

TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

5.1 **Allocation of responsibilities**

Financial Audit and Risk Management Committee

- Approval of the Annual Investment Strategy.
- Receiving, reviewing and approving if necessary reports on treasury management policies, practices and activities.
- Approval of the Association's Treasury Management Policy Statement and Treasury Management Practices (TMP's)
- Budget consideration and approval
- Approving the selection of external service providers and agreeing terms of appointment.
- Approval of new loan facilities.
- Providing independent assurance that there are adequate controls in place by to regularly monitor treasury management performance

5.1 **Principles and Practices concerning Segregation of Duties**

The segregation of duties to ensure the security of the Association's monies is fundamental to the Treasury Management function. The details regarding this are set out in 5.3 below which schedules the relevant officers involved in the Treasury Management function and their specific responsibilities.

5.2 Treasury Management Organisation of Staff

- Finance Agent
- Chief Executive
- Finance Assistants

5.3 Statement of Duties/Responsibilities of each Treasury Management Post

5.3.1 Finance Agent

All monies in the hands of the Association will be aggregated for the purpose of Treasury Management and will be under the control of the Finance Agent. All decisions on borrowing, investment or financing will be delegated to the Finance Agent or through him to his staff who will all be required to act in accordance with the CIPFA Code of Practice and all other relevant guidance.

1. The Finance Agent will have responsibility for:
 - preparing the Treasury Management Policy Statement and Practice Schedules for approval, reviewing the same regularly and monitoring compliance
 - recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
 - submitting regular treasury management policy reports
 - submitting budgets and budget variations
 - receiving and reviewing management information reports
 - reviewing the performance of the treasury management function
 - ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - ensuring the adequacy of internal audit, and liaising with external audit
 - assessing and recommending the appointment of external service providers.
 - to assume responsibility for securing loan facilities, entering into negotiations with Building Societies and other private lenders, and investigating potential new lenders, to act as authorised signatory in all dealings with private lenders.

The Finance Agent or the Finance Assistant must ordinarily conduct all dealing transactions with other staff within the Finance Section acting as temporary cover for leave/sickness. All transactions must be signed by one of the authorised signatories from the bank mandate.

2. The Finance Agent will ensure that the Treasury Management Policy is adhered to and, if not, will bring the matter to the attention of Board as soon as possible
3. The Finance Agent will be satisfied that, prior to entering into any capital financing, lending or investment transaction, the proposed transaction does not breach any statute, external regulation or the Association's Financial Regulations.

Chief Executive

The responsibilities of this post will be:

- ensuring that the system is specified and implemented
- ensuring that the Finance Agent reports when necessary to Board on treasury management policy, activity and performance.

Finance Assistants

The responsibilities of this post will be:

- assisting the Finance Agent and Chief Executive in carrying out their duties.

5.4 Absence Cover Arrangements

The Association's policy is for either the Finance Agent or Finance Assistants to be present on a daily basis.

5.5 Dealing Limits

The Finance Agent is able to deal such amounts of cash that are available on a daily basis within the counterparty limits set down. Such deals are authorised prior to settlement by an authorised signatory.

5.6 Policy on taping of conversations

The Association's current policy is not to tape telephone conversations in respect of dealing transactions although this is within the power of the person making the call to do so. In addition, it can be the policy of counterparties to tape telephone dealing conversations and the Association is pre-notified of this.

5.7 Direct Dealing Procedures

The Chief Executive and the Finance Agent are authorised to deal directly with the institutions that do so. Direct dealing has to be carried out in respect of Deposit/Call Accounts and Money Market Funds. Other direct dealing is carried out when the Association is aware that better terms will be available.

5.8 Documentation Requirements

All transactions are detailed in a loans or investments register. All documentation relating to the transaction is kept on file.

TMP6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

The Association has the following reporting arrangements in accordance with the revised Code of Practice:

Report/Document	Committee	Frequency
Treasury Management Policy Statement and Practices	Financial Audit and Risk Management	When changes require or every three years
Treasury Management Strategy Statement and Annual Investment Strategy	Financial Audit and Risk Management	Annually before the start of financial year
Treasury Management Update	Financial Audit and Risk Management	Quarterly
Treasury Management Review	Financial Audit and Risk Management	Annually with the Statement of Accounts

6.2 Annual Treasury Management Strategy Statement

6.2.1 The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Board of Management for approval before the commencement of each financial year.

6.2.2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates and investment plans. For instance, the Association may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

6.2.3. The Treasury Management Strategy Statement is concerned with the following elements:

- the current portfolio position
- borrowing requirement
- the prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- investment strategy
- creditworthiness policy
- policy on the use of external service providers

6.2.4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives using all available information such as published interest rate forecasts where applicable, and will highlight sensitivities to different scenarios.

6.3 **Annual Investment Strategy**

At the same time as Board of Management receives the Treasury Management Strategy Statement it will also receive the Annual Investment Strategy which will set out the following:

- the Association's risk appetite in respect of security, liquidity and optimum performance

- the definition of high credit quality
- the Association's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- which credit rating agencies the Association will use
- how the Association will deal with changes in ratings, rating watches and rating outlooks
- limits for individual counterparties and group limits
- levels of cash balances
- interest rate outlook
- Treasury Management Budget

6.4 Best Value and Performance Measurement

6.4.1 The Association is committed to the pursuit of best value in its treasury management function, and to the use of performance methodology in support of that aim. Accordingly, the treasury management function will be considered within the Association's overall continual improvement plans. To measure the performance of the treasury management function the following information will be collated on an on-going basis:

- Details of investments made;
- details of new loans drawn down;
- details of refinancing exercises undertaken.

And this will be reviewed on a monthly basis by the Finance Agent who will use the information to inform future decision making.

With regard to performance management the following will also be included:

- Interest receivable;
- weighted average interest rate paid;
- interest paid on fixed loans;
- interest paid on variable loans;

- percentage of fixed to variable debt;
- exposure profile expressed as a graph; showing level of fixed, variable, proposed drawdowns and repayments

6.4.2 The Finance Agent is also responsible for ensuring compliance with the gearing, interest cover and security limits. These limits are set by the funders and can only be changed through re-negotiation with the funders.

6.5 **Mid-Year Review**

6.5.1 The CIPFA Code of Practice recommends a minimum mid-year review report on treasury management activities, this will be presented to Board. The Association will go beyond this by presenting quarterly reports to the FARM and six monthly to the Board.

6.6 **Annual Review Report**

6.6.1 An annual report on Treasury Management activity will be presented to the Board of Management by the end of July following the financial year in question. This report will include the following:

- a comprehensive picture for the financial year of all treasury policies, activities and results;
- monitoring of compliance with approved policy, practices and statutory/regulatory requirements;
- performance report;
- report on compliance with the CIPFA Code recommendations;

6.7 **Quarterly Activity Report**

A quarterly report on Treasury Management activity will be presented to the Board.

TMP7 Budgeting, Accounting and Audit Arrangements

7.1 **Statutory/Regulatory Requirements**

The accounts are drawn up in accordance with the Statement of Recommended Practice (SORP) for Registered Social Housing Providers in Great Britain that is recognised by statute as representing proper accounting practices. The Association has also adopted in full the principles set out in CIPFA's Treasury Management in the

Public Services Code of Practice, together with those of its specific recommendations that are relevant to this Association's treasury management activities.

7.2 Accounting Practices and Standards

The Treasury Management function gives regard to the Statements of Recommended Practice and Accounting Standards as they apply to Housing Associations.

7.3 Sample Budgets/Accounts/Treasury Indicators

A 30 year Business Plan is Prepared including a 30 year cashflow, this is then broken down into a five year plan. This plan incorporates the budget for the forthcoming year and provisional estimates for the following four years. The Finance Agent prepares the Treasury Management Strategy Statement and Annual Investment Strategy with Treasury Management Indicators for Board approval.

The Finance Agent monitors actual spend against the budget and monitors performance against the Treasury indicators. Any changes required are reported to Board.

An end of year summary Treasury Management Statement of expenditure/income is produced and is incorporated in the annual Treasury Management Review Report in respect of that year.

A summary Treasury Management budget is produced and incorporated in the annual Treasury Management Strategy Statement and Annual Investment Strategy Report.

7.4 External and Internal Auditors

The external auditors are currently Bird Simpson.

The internal auditors are currently Quinn Internal Audit.

The auditors are granted access to all paperwork supporting and explaining the operation and activities of the Treasury Management function.

7.4 Regular Budget Monitoring

Regular budget monitoring reports are produced to the FARM on a quarterly basis. Reports are intended to highlight any variances between budgets and spend in order that the Association can assess its financial position. Details of treasury management activities are included within these reports.

TMP8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

8.1.1 Quarterly cashflow projections for at least a year ahead are prepared. They are prepared from the 30-year business plan for the year ahead, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.1.2 The content covers all income and expenditure of the Association together with details of bank balances and investments. All transactions are shown on a monthly basis and the cash figures are on a monthly basis.

8.1.3 Information is sourced from the following:

- purchase ledger system
- rental projections
- payroll system
- loans registers
- correspondence re: grant awards/ subsidy
- maintenance spend plans
- development team for development scheme payments

8.1.4 The projections allow the following to be determined:

- whether minimum acceptable levels of cash balances plus investments might be breached
- the adequacy (or otherwise) of standby/overdraft facilities or other contingency arrangements
- the optimum arrangements to be made for investing and managing surplus cash

8.2 Bank Statements Procedures

8.2.1 Bank Accounts:

It is the responsibility of the Finance Agent to operate such bank accounts as are considered necessary. Bank accounts are reconciled monthly. Opening or closing a bank account requires the approval of the Board of Management. Bank accounts must all be in the name of Ore Valley Housing Association Ltd.

Responsibility on a daily basis for banking arrangements, procedures and reconciliations is delegated to the Finance section. Instructions regarding banking arrangements are only accepted by the Association's bankers from the Finance Staff and if relevant accompanied by the necessary authorised signatures.

8.3 Petty Cash Account

It is the responsibility of the Finance Agent to provide employees of the Association with a cash account to meet minor expenditure on behalf of the Association.

8.4 Credit Cards

The Finance Office will administer the cards corporate credit card in accordance with the Associations Corporate Credit Card Policy.

8.5 Payment Scheduling and Agreed Terms of Trade with Creditors

The Association's policy is to pay creditors within 28 days of the invoice date being received unless specified in a contract or other given payment terms.

8.6 Arrangements for Monitoring Debtors/Creditors Levels

Debtors:

Invoices issued through the Sundry Debtors system are monitored on a regular basis and reminders sent.

Creditors:

A monthly report is produced for the monitoring of creditor levels and the timeliness of payments to suppliers.

8.7 Procedures for Banking of Funds

The Association's financial regulations state that any money received by an employee on behalf of the Association is paid without delay to the Finance Team or, as they direct, to the Association's bank account and is properly recorded by the issue of a receipt or by direct entry into a receipting system. The maximum of £1,000 is to be kept in the safe overnight being the insurance limit.

TMP9 Money Laundering

- 9.1 Registered Social Landlords are not bound by the Money Laundering Regulations 2007 but are bound by the Proceeds of Crime Act 2002. As such, Registered Social Landlords are not required to appoint a Money Laundering Reporting Officer, but only a nominated officer who carries out anti-money laundering duties as per The Proceeds of Crime Act 2002.
- 9.3 The guidance from the SFHA is that Associations should follow the Money Laundering regulations and guidance if they are involved in any aspect of selling a property.

9.4 **Procedures for Establishing Identity/Authenticity of Lenders**

It is not a requirement under the Proceeds of Crime Act 2002 for Registered Social Landlords to require identification from every person or organisation it deals with. However, in respect of Treasury Management transactions, there is a need for due diligence and this will be affected by following the procedures below:

- The Association does not accept loans from individuals.

All loans are obtained from authorised institutions under the Financial Services and Markets Act 2000: a register of such institutions is maintained by the Financial Conduct Authority (FCA).

9.5 **Methodology for Identifying Sources of Deposit**

In the course of its Treasury Management activities, the Association will only lend money to or invest with those counterparties that are on its approved lending list.

These will be authorised deposit takers under the Financial Services and Markets Act 2000: a register of such institutions is maintained by the Financial Conduct Authority (FCA).

TMP10 Staff Training and Qualifications

- 10.1 The Association recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- Finance staff employed by the Association
- Members charged with governance of the treasury management function.

All Finance staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. All Finance staff that are members of an appropriate professional body will be trained in line with the continuing professional development requirements of these professional bodies. The Association operates an Annual Appraisal system which identifies the training requirements of individual members of staff.

Additionally, training is also provided on the job and it is the responsibility of the Finance Agent to ensure that all staff under their responsibility receives the level of training appropriate to their duties.

10.2 **Details of Approved Training Courses**

Finance staff and members will go on courses provided by relevant bodies.

10.3 **Records of Training received by Treasury Staff**

As required by their relevant professional bodies, Finance staff will maintain records of training they receive.

10.4 **Member training records**

Records will be kept of all training in **treasury management** provided to Members.

10.5 **Members charged with governance of Treasury Management**

Members charged with governance have a personal responsibility to ensure that they have the appropriate skills and training for this role.

TMP11 Details of Contracts with Service Providers including Bankers, Brokers, Consultants and Advisers

- 11.1 The Association will not employ the services of more than one organisation to assist it in the day to day treasury management activities. However, it may use external consultants to provide specialist advice in this ever more complex area. The Association will ensure that it fully understands what services are being provided and that they meet the needs of the Association, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the Finance team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice. Finance staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance:

- the quality financial press
- market data
- information on government support for banks and the credit ratings of that government support.

11.2 Treasury Consultants/Advisors' Services

The Association does not use a general Treasury Consultant but may on one off projects if a specialised knowledge is required.

11.3 Leasing Consultancy Services

The Association does not have a lease consultant.

11.4 External cash/fund management services

It is not the Association's current policy to engage the services of cash/fund managers.

11.5 Credit-rating agencies

The Association will use reports from the following credit rating agencies

Fitch
Standard & Poors
Moody's

11.8 Procedures and Frequency for tendering services

See TMP2.

TMP12 Corporate Governance

12.1 List of Documents to be made available for Public Inspection

12.1. The Association is committed to the principle of openness and transparency in its treasury

management function and in all of its functions.

- 12.2 It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the CIPFA Code.
- 12.3 The Association is regulated by the Scottish Housing Regulator and complies with all necessary performance standard.
- 12.4 The Association is governed by an Independent board.
- 12.5 Complies with best practice as suggested by the Scottish Housing Federation.