



# Financial Regulations

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## 1.0 INTRODUCTION

Homes for Life Housing Partnership (HfL) is registered Company Limited by Guarantee (SC199299) and a Scottish Registered Charity (SC028542). We are a Registered Social Landlord (RSL) with the Scottish Housing Regulator (HAC311) and a registered Property factor (PF000219).

HfL must demonstrate effective governance and sound financial management and must at all times have a robust policy and procedural framework that complies with legislation, guidance and good practice.

HfL's Standing Orders detail how the business of the organisation shall be run and include delegated responsibilities, powers and remits of each Board or Committee. These Financial Regulations detail Board and Staff responsibilities together with details of generally accepted best practice.

The Financial Regulations form a part of the overall system of financial and management control and take account of the Scottish Housing Regulators (SHR) Standards of Governance and Financial Management.

Compliance with the Financial Regulations is compulsory for all Board and Staff. It is the responsibility of the Management Team to ensure that all Board and Staff are aware of the existence and content of these regulations.

The Financial Procedures set out how these regulations shall be implemented. Nothing in these Financial Regulations shall override instructions from or conditions imposed by the Scottish Government, the SHR, and the Accounting Standards Board of the Financial Reporting Council, the Financial Conduct Authority (FCA) and any other appropriate statutory organisation or any relevant current legislation. Nothing in the supporting Financial Procedures or other policies will override the principles embodied in the Regulations.

## 2.0 REGULATORY STANDARDS OF GOVERNANCE AND FINANCIAL MANAGEMENT

All RSLs have to comply with the Scottish Housing Regulators Regulatory Standards of Governance & Financial Management. Standard 2, 3, 4 and 5 have specific financial requirements.

Compliance with SHR Regulatory Standards (updated 2019)		
<b>Standard 1</b>	The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users	✓
<b>Standard 2</b>	The RSL is open about and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders.	✓

<b>Compliance with SHR Regulatory Standards (updated 2019)</b>		
	And its primary focus is the sustainable achievement of these priorities	
<b>Standard 3</b>	The RSL manages its resources to ensure financial well-being, while maintaining rents at a level that tenants can afford to pay	✓
<b>Standard 4</b>	The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose	✓
<b>Standard 5</b>	The RSL conducts its affairs with honesty and integrity	✓
<b>Standard 6</b>	The governing body and senior officers have the skills and knowledge they need to be effective	✓
<b>Standard 7</b>	The RSL ensures that any organisational changes or disposals it makes safeguard the interests of, and benefit, current and future tenants.	✓

### 3.0 PRINCIPLES, AIMS AND OBJECTIVES

HfL has a clear commitment to continuous improvement, providing value for money and to the exploration of new ideas in all areas of its work. The objectives of this policy are to ensure that an effective system of internal control is in place, not only for financial matters, but for the organisation's policies and procedures for the business as a whole.

### 4.0 INTERNAL FINANCIAL CONTROL

Internal financial control can be defined as the controls established to:

- The reliability of financial information used within the company or provided for external users.
- The maintenance of proper accounting records.
- The safeguarding of assets against unauthorised use or disposition.

#### 4.1 Requirement for Internal Financial Control

In addition to our own need for a documented system of internal controls to achieve the aims set out above, it is a requirement of the Regulatory Advice Note: Internal Financial Controls and the Regulatory Standards (issued September 2014) for Registered Social Landlords that we include a statement in our published accounts which:

- Confirms that the Board acknowledges its responsibility for Internal Financial Control
- Includes a description of the key procedures for Internal Financial Control
- Confirms that the Board has, in the Financial Year, reviewed the effectiveness of the system of Internal Financial Control and reports whether any weaknesses in

the system of Internal Financial Control have resulted in any material losses, contingencies or uncertainties which require disclosure in the audited accounts

- Explains that the system cannot provide absolute assurance against material loss or misstatement
- Provides reason for any non-compliance
- Covers the period between the balance sheet date and the date the accounts are signed

The External Auditors are required to review this statement and to report any discrepancies between it and the results of the audit work.

#### **4.2 Responsibility for Internal Financial Control**

Responsibility for HfL'S Internal Financial Control lies with our Board in accordance with the Regulatory Standards.

The Board is responsible therefore for ensuring that the control system defined above is in place, is adhered to and is effective.

All Board Members and Staff must adhere to the controls which apply to any situation involving HfL. Day to day management and implementation of controls is delegated to the Senior Officer and the Finance Agent and other Staff (as outlined in detail within these Regulations).

These financial controls are described in further detail in the appropriate sections of these Regulations.

## **5.0 RESPONSIBILITIES**

### **5.1 Board Responsibilities**

The Board has ultimate responsibility for all aspects of the HfL's affairs at a strategic level. The Board govern and the staff manage. The Board do not become involved in detailed operational matters. It is responsible for the leadership, strategic direction and control of HfL and for ensuring it secures good outcomes for its tenants and service users.

Statute requires the Board to prepare financial statements for each financial year and it is the Board which is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of HfL.

The Board is also responsible for safeguarding the assets of the organisation and for taking reasonable steps to prevent and detect fraud and other irregularities.

Board members have a duty towards HfL its staff, tenants, other service users and the community in which it operates. They must therefore seek good quality information and advice at all times to ensure their decisions are based on the same. This advice

may need to be sought from external professional advisors where necessary. The Board must also ensure they have the skills and knowledge they need to be effective in their role. They must at all times seek to identify risks to HfL and mitigate same.

## 5.2 **Staff Responsibilities**

The Senior Officer is responsible to the Board for the implementation of strategic, policy and procedural decisions taken by the Board and the day-to-day management of HfL. The Senior Officer advises the Board and is also responsible for the promotion of HfL and for coordinating the activities of the Management Team. The Senior Officer is responsible for ensuring the Board receives all information and relevant guidance and training which it requires to meet its obligations.

The Management Team are responsible for ensuring staff members within their section understand their respective roles and responsibilities and for monitoring their performance against the same. They must ensure they and their staff are open about, and accountable for, all they do. They are responsible for the security and control of all assets, cash and materials relating to their section. They are also responsible for managing the financial budgets allocated to their area of responsibility.

The responsibilities and duties of all staff members shall be contained within a suitable job description which supports their contract of employment. The responsibilities and duties of any external service provider must be contained within the relevant Board Minute(s) of Agreement or Service Level Agreement.

## 6.0 **ACCOUNTING AND AUDIT REQUIREMENTS**

### 6.1 **Accounting**

The format of the financial records shall be determined by the Finance Agent in consultation with the Senior Officer and must take account of audit requirements, good practice and current guidance.

The allocation of accounting duties should where possible take account of segregation of duties, and all records should be regularly updated.

All accounting policies shall be contained within the annual financial statements and shall be reviewed annually as part of the approval of the financial statements. Accounting policies shall be presented to the Board for approval out with this cycle when changes are made.

### 6.2 **External Audit**

The external auditor will be appointed at each Annual General Meeting, following a recommendation by the Board and in line with HfL's Rules and current statutory requirements.

The external auditor will be appointed following a tendering process and in accordance with good practice. HfL shall review its external auditors at least every 5 years unless the service level dictates otherwise.

The role of the external auditor must be clearly detailed in an Engagement Letter provided by the external auditor that shall be reviewed by the Board every three years in accordance with good practice.

Preparation of the financial statements shall be undertaken by the Finance Agent. A year end timetable should be completed by the Finance Agent and be agreed with the external auditor prior to commencement of the year end statutory audit.

The financial statements must be in the required format and contain the report of the external auditor. In addition, the financial statements must contain a report from the Board, to include comment on past and future developments, together with a separate board report on the systems of internal financial control.

Draft audited financial statements will be presented to the Board for approval at an appropriate meeting. Final audited accounts will be adopted at the Annual General Meeting to be held no later than 6 months after the end of the financial year.

Final audited and signed accounts will be submitted to the SHR, Companies House, Lenders, OSCR and to the Financial Conduct Authority within the required timescales following the financial year end.

A copy of the auditor's Management Letter and the Boards' response to the Management Letter will also be submitted to the SHR within the required timescales.

The external audit function shall be overseen by the Board and in line with good practice the Board shall have a closed door session, with no staff present, with the external auditor at least once a year at which time the Board may ask any questions it feels appropriate.

### **6.3 Internal Audit**

The internal auditor will be appointed to carry out a rolling programme of reviews of the effectiveness and application of internal controls and procedures, including an annual review of adherence to the Financial Regulations and Financial Procedures.

The internal auditor will be appointed following a tendering process and will be appointed for a maximum of three years (subject to an annual renewal of the appointment) by the Board.

A rolling programme for internal audit shall be set out and agreed by the Audit & Risk Committee based on current risk assessments. The setting of the internal audit

programme shall take account of concerns or recommendations from the Management Team.

The Board will review all internal audit reports and progress reports and will monitor the implementation of all agreed actions within set timescales.

The internal auditor will have access to all locations, staff, records and physical assets necessary for the performance of their role. Staff will provide the internal auditor with any explanations necessary as part of their review. No limitations will be placed on the scope of their review. Any such attempt to impose limitations will be reported to the Board as soon as is practical.

The internal auditor may be asked to participate or advise in discussions relating to the formulation and installation of new systems, controls and procedures. Final responsibility for such matters lies with the Board.

The internal auditor may assist in the protection of the assets of HfL by carrying out regular reviews of operations in order to detect system weaknesses, inefficiencies, fraud, misappropriation and losses due to waste or maladministration. Final responsibility for such matters lies with the Board.

The internal auditor will also monitor compliance with HfL's Financial Regulations and Procedures as part of their internal audit reviews. Final responsibility for such matters lies with the Board.

The internal function shall be overseen by the Board and in line with good practice the Board shall have a closed door session, with no staff present, with the internal auditor at least once a year at which time the Board may ask any questions it feels appropriate.

## 7.0 FRAUD AND OTHER FINANCIAL IRREGULARITIES

The primary responsibility for the prevention and detection of fraud and errors rest with the Board. The external auditor may plan the external audit in order to have a reasonable expectation of detecting material misstatements in the financial statements, whether caused by fraud or errors.

To assist in discharging its responsibilities in this area the Board should receive reports from the internal auditor on all cases of actual or attempted fraud or bribery and consider whether internal controls require to be reviewed.

All matters in relation to fraud prevention, reporting, recording and associated matters are outlined in HfL's Anti-Bribery & Corruption Policy.

## 8.0 BUSINESS PLANNING

HfL shall have in place a three-year Business Plan document which sets out the strategic direction. The Board is ultimately responsible for the governance and



direction and it is recognised that the Business Plan should represent a joint understanding by staff and Board of what HfL wants to achieve, the choices available and the key risks faced by the HfL. The Business Plan shall therefore be produced by the Board and the Management Team in consultation with staff, tenants and other stakeholders as necessary and in line with the Business Planning Protocol.

The content of the Business Plan recognises and reflects the current SHR's Business Planning Recommended Practice (Dec 2015) for RSLs. It includes amongst other areas:

- Vision and Mission
- Informed Consent
- Value for Money
- Rent Affordability
- Risk Management & Mitigation
- Asset Management
- Treasury Management
- Stakeholder Management
- Financial Planning

On an annual basis, the Senior Officer will have delegated authority for the preparation of a detailed Strategic Objectives Delivery Plan on behalf of the Board, within the framework of the Business Plan.

The Senior Officer shall produce an annual timetable to accompany the business planning process detailing the stages, processes and responsibilities in order to achieve the timetable.

The Strategic Objectives Delivery Plan will set departmental performance targets and KPIs, and shall feed into the annual budget setting process and risk management procedures.

On at least a quarterly basis, progress against operational targets shall be reported to the Board. These reports shall be supported by the management accounts, other operational reports and the risk register to ensure all aspects of the Business Plan are linked together and operating effectively.

On at least an annual basis the achievement of strategic objectives will be considered and reported to the Board.

As previously mentioned, HfL will take account of the SHR document on Recommended Practice - Business Planning produced in December 2015 in its business planning process. The SHR in August 2020 issued supplementary advice for landlords in response to Covid- 19 asking RSL to focus on five keys areas:

- Rent affordability
- Risk management and mitigation (including tenant & resident safety)
- Asset management (including development)
- Financial planning
- Treasury management

## 9.0 FINANCIAL PLANNING

### 9.1 Approach to Financial Planning

The Finance Agent will assist with the preparation of long-term financial planning. The Management Team and Board will be involved in the process with the forecasts requiring approval by the Board.

Long-term financial forecasts shall be prepared in accordance with agreed timescales and shall be forwarded to any lenders (in line with loan agreements requirements) as well as external and internal auditors for information and consideration. Formal feedback shall be sought from all parties regarding the assumptions employed and the financial outturns.

HfL will prepare and submit five-year financial projections to SHR in the prescribed format and within the relevant timescales, which will have been presented to and approved by the Board in advance, all in accordance with existing guidance from the SHR. A copy of this information shall be submitted to lenders and the external auditor.

HfL shall undertake a review of its long-term projections on an annual basis in order to ensure that the projected annual position remains on target with the 30-year statement of comprehensive income, statement of financial position and cash-flow projections. A full and detailed Business Plan review shall be undertaken annually. Appropriate sensitivity and scenario testing analysis must be applied to the long-term projections with details being incorporated into the Business Plan document.

The content of the 30-year financial forecasts shall include the following information as a minimum:

- ✓ Details of main assumptions employed and source
- ✓ Statement of Comprehensive Income for 30 years
- ✓ Statement of Financial Position projections for 30 years
- ✓ Cash flow projections for 30 years;
- ✓ Key performance indicators data and peer comparisons;
- ✓ Covenant compliance schedules;
- ✓ Appropriate sensitivity/scenario testing analysis;
- ✓ Schedules for all income and cost information and assumptions; and
- ✓ Supporting narrative to confirm an overview of the projected outturns, any areas for further consideration, any areas of concern and any actions required that flow from production of the final information.

While the overall responsibility for this information lies with the Finance Agent it is essential that an appropriate level of input from the Management Team is accounted for within the long-term financial plans. In particular, the areas of rent levels, rent increases, maintenance costs, staffing levels, management costs and future investment activity require agreed input and Board approval.

Given the impact that inflation and interest rates may have on the expected financial position, the Finance Agent shall seek information from any lenders regarding future expected rates for these areas. In addition, any real cost increase assumptions should take account of lender and valuer advice. All assumptions made in the forecasts will be reviewed and agreed with the Board as being appropriate. If in doubt, the Board can take external advice to seek assurance.

The Finance Agent shall produce an annual timetable to accompany the financial forecasting process and this shall take account of:

- Provision of, review and agreement on future maintenance plans;
- Provision of, review and agreement on rental, staffing and development assumptions;
- Production of draft projections;
- Management team discussion, review and agreement of draft projections;
- Reporting to Board;
- Provision of information to external parties; and
- Feedback to Board from external parties.

The importance of financial forecasting in relation to the HfL's overall business planning process is recognised and timetables applicable to both processes require to be carefully aligned.

## 9.2 **Annual Budget – Preparation, Review and Approval**

An Annual Budget must be approved by the Board prior to the start of the financial year to which it relates.

The setting of the annual budget forms part of the annual business planning cycle and will reflect the HfL's current Business Plan, strategic objectives and longer-term financial forecasts.

The Annual Budget will comprise of:

- A clear statement of main assumptions and sources of information underlying the budget
- Projected Statement of Comprehensive Income
- Projected Statement of Financial Position
- Projected Cash Flow Statement

- Detailed capital budgets for all projects
- Monthly cash flow projections
- Monthly income and expenditure details
- Cost allocation information
- Appropriate ratio analysis
- Loan covenant compliance performance
- Any summary narrative commentary necessary for a clear understanding of the budget

The Annual Budget will be prepared by HfL's Finance Agent on a roll over basis each year, taking into account the prior year Annual Budget, year to date variances and any known changes linking to the Business Plan. The Finance Agent will put in place a timetable which will take account of:

- Provision of budget planning information from budget holders
- Review of planned, cyclical and major repairs to be undertaken in line with the 30-year plan
- Submission of draft Annual Budget to Senior Management Team and budget holders for review and approval
- Submission of draft Annual Budget to Board for review and discussion including the impact of any options or sensitivities where there is a potential material financial effect over the 12-month period
- Amendments as a result of Board review
- Final approval of the Annual Budget by the Board

A draft budget will be presented to the Board around November each year which will allow the Board to consider the rent increase for consultation with tenants. The final budget will be presented to the Board the following February for final approval taking into account the feedback from the consultation exercise.

### 9.3 **Budgetary Control**

Once approved, the Annual Budget shall be regarded as the basis for authority to incur expenditure, subject to current Standing Orders, the Scheme of Delegation and any specific exemptions agreed with the Board. It should be recognised that changes in circumstances may result in changes to budgeted expenditure. Such changes (if material and significant) will be approved by the Board.

It is the responsibility of all budgets holders to control relevant budgets. Budgetary control will be assisted by production of quarterly management accounts and accompanying narrative reports comparing actual income and expenditure with budget estimates. The Finance Agent will report on actual income and expenditure against budget on a quarterly basis to both the Management Team and the Board. Projected outturns will be included in the reports.

The Finance Agent will ensure that material variances are clearly explained within the narrative supporting the quarterly management accounts. Explanations of material variances will be sought from budget holders during the preparation of the quarterly management accounts where necessary. The Finance Agent shall, using their judgement, also highlight any other variances where this is considered appropriate.

The quarterly management accounts should include the effect of likely future events on the financial position together with details of the currently projected financial position at the year-end. Cash flow monitoring and covenant compliance will form a part of the quarterly management accounts. A copy of the approved Annual Budget and quarterly management accounts will be sent to any lender(s) and external auditor.

In circumstances of emergency, expenditure may be incurred beyond authorisation levels by obtaining the prior approval of the most senior member of staff on duty and the Chair (or Office Bearer in the absence of the Chair ), who will consult the Finance Agent, if possible, before agreeing to any request. Any such expenditure must be reported by the Senior Officer at the next meeting of the Board for retrospective approval. HfL shall keep a register of all such emergency approvals (to be reviewed by the Board annually) so that any potential problems or emerging themes can be identified.

The Management Team will ensure that when reports are issued to the Board, the financial implications of any course of action is fully detailed. The Finance Agent will be consulted prior to any report that has material financial implications going to the Board.

The Finance Agent shall undertake a quarterly review of the income and expenditure for the purposes of budget monitoring and shall maintain a budget variance file in order to advise of projected outturns at the year end.

The Senior Officer has authority to reallocate budgets between cost headings (virement) subject to a maximum level of £25,000.

#### 9.4 **Benchmarking and Performance Analysis**

The Senior Officer shall ensure that reports will be submitted to the Board including but not restricted to the following:

- Analysis of Business Plan targets achieved
- Actual performance -v- KPIs
- Comparison of results with the SHR published ratios and statistics
- Comparison of results against the annual budget
- Comparison of actual and estimated loan covenant results

- Annual Return on the Charter (ARC); and
- Annual Assurance Statement

The Management Team is responsible for the provision of accurate information on their department's performance in line with an agreed timetable confirmed by the Senior Officer.

## 10.0 FINANCIAL PLANNING

### 10.1 Procurement

All works, goods and services will be procured in accordance with the terms of HfL's the Procurement Policy.

Where necessary, quotations or tenders for goods or services will be obtained, according to the financial limits as detailed in the Procurement Policy.

Orders for works, goods and services will be in accordance with current procedures, in particular the budget limits and the regulations on Incurring and Authorising Expenditure.

Where contracts for new-build or maintenance projects, or for annual services, provide for payment to be made by instalments, the Senior Maintenance Officer shall keep records detailing the position of accounts on each contract, together with any other payments and the related professional fees.

Payment to contractors, whether on account or the final account, shall be made in accordance with current procedures. The Finance Agents shall meet regularly with the appropriate officer to monitor expenditure on contracts.

The Board shall be provided with quarterly updates on the progress of all contracts within the scope of the Procurement Policy, including a summary of the position of accounts on each contract.

HfL shall take account of EU Procurement and Scottish Government thresholds as appropriate. When required and following approval by the Board a procurement consultant may be used to ensure compliance with all applicable Procurement legislation and requirements.

### 10.2 Assessing New Projects

Prior to committing to any new projects or activities a full Options Appraisal and Financial Assessment shall be carried out and reported to the Board for consideration and approval.

In the event that the new project or activity results in a net financial cost to HfL then the overall impact on the long-term financial projections requires to be considered and reported on as part of the overall assessment report.

External specialist and legal advice shall be taken where appropriate.

### 10.3 **Value for Money**

HfL seeks to obtain value for money in all activities. This is laid out in the Value for Money Strategy.

The selection of an appropriate method of procurement, the use of tendering procedures, the selection of appropriate financing options and a balancing of quality and cost or other appropriate cost benefit analysis shall be undertaken by HfL as part of its decision-making process.

## 11.0 SECURITY

All Staff are responsible for maintaining proper and adequate security at all times for buildings, furniture, equipment, and other assets, and any cash under their direct control. The Senior Officer is responsible for overall security and any perceived risks to HfL must be notified to the Senior Officer immediately.

All information held electronically is backed up to the Cloud on a daily basis. It is the responsibility of the Senior Officer to ensure this task is undertaken by the IT company. Access to IT systems is restricted by the appropriate use of passwords which shall be prompted to change regularly.

The Senior Officer will ensure that there are adequate systems in place covering the security and use of all data (personal and sensitive information) relating to applicants, tenants, members of staff, contractors and of the public held either in electronic or paper format, to comply with the Data Protection Act (as amended) and the General Data Protection Regulation as laid out in the relevant policies.

All permanent staff members are office key holders. All personnel holding keys are responsible for their safe keeping. Access to the office outwith normal working hours is limited to the Management Team and Officers named as contactable in the event of alarm activations. Access to the office outwith normal working hours for all other staff will only be permitted with the agreement of the Senior Officer.

The Corporate Services/Finance Assistant has day to day responsibility for petty cash payments. The Finance Agent will reconcile the petty cash on a quarterly basis. Petty cash tin will be held in the reception safe at all times unless in use.

The loss of office, property or petty cash keys must be notified to the Senior Officer immediately and reported to the Board if appropriate.

## 12.0 INSURANCE

The Senior Officer shall arrange all insurance cover on behalf of HfL subject to the Senior Management Team confirming cover requirements (including Board member insurance). Due to EU Procurement rules the use of a specialist consultant may be required. The appointment if this consultant will be approved by the Board.

The submission of all/property insurance claims is the responsibility of the Senior Maintenance Officer.

The Employer's Liability Insurance Certificate will be displayed in the public reception area and once expired kept for the required length of time before disposal.

HfL shall ensure, prior to contracts commencing, that written agreement is received from external contractors that they shall insure and take responsibility for all works in progress. A copy of the insurance cover in place must be received in advance of such works commencing.

## 13.0 RISK MANAGEMENT

HfL's approach to managing risk is detailed within the Risk Management Strategy. All current activities, and proposals for new activities, will be subject to a risk assessment (undertaken by staff) as specified in the Risk Management Strategy.

Where potential risks are identified the activity will be included in the current Risk Matrix together with measures to eliminate or minimise the risk.

The Senior Officer will provide the current Risk Matrix and a report to the Board at least quarterly, providing an update regarding progress to mitigate the key strategic risks, or more frequently should emerging risks arise which are not on the risk register.

## 14.0 TREASURY MANAGEMENT

HfL will comply with the Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and cross Sectorial Guidance Notes (2017 Edition), (the Code). HfL has laid out its approach to this area in its Treasury Management Strategy.

## 15.0 REVIEW

This policy will be reviewed at every 3 years or where there has been new legislation, or a change in regulatory requirements or policy guidance.