

HDN

11 November 2021

- Group Development Session
- Finance – Part two
- What board members need to know and how to seek assurance

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- Audit & Risk Committee Chair, North Star Housing Group.
- Trustee, Coaching Inside and Out



HDN
YOUR NETWORK
TO DIVERSITY

Outline of session

17:05 -18:40

- 17:05 - Jason will present:
 - Recap on Part One
 - Overview of Treasury Management
 - Financial Risk Management
 - Questions to ask in your own organisation.
- 18:00 - Break
- 18:15 - Q&A, discussion
- 18:40 - Finish

A pair of black-rimmed glasses is resting on a stack of papers. A red ribbon bookmark is visible on the left side of the papers. The background is slightly blurred, showing more papers and a wooden surface.

Introductions

Name, organisation and finance experience

5 minutes
Prep –
please
write
down....

What is the most important thing you want to take away from this session?

What are the key risks facing your organisation and how do you think they are being managed?

Keep handy as will use this as the basis of the discussion after the break.



But first....What connects Harrison Ford to Treasury Management and Financial Risks??

Finance fundamentals

-what we
covered in
part I

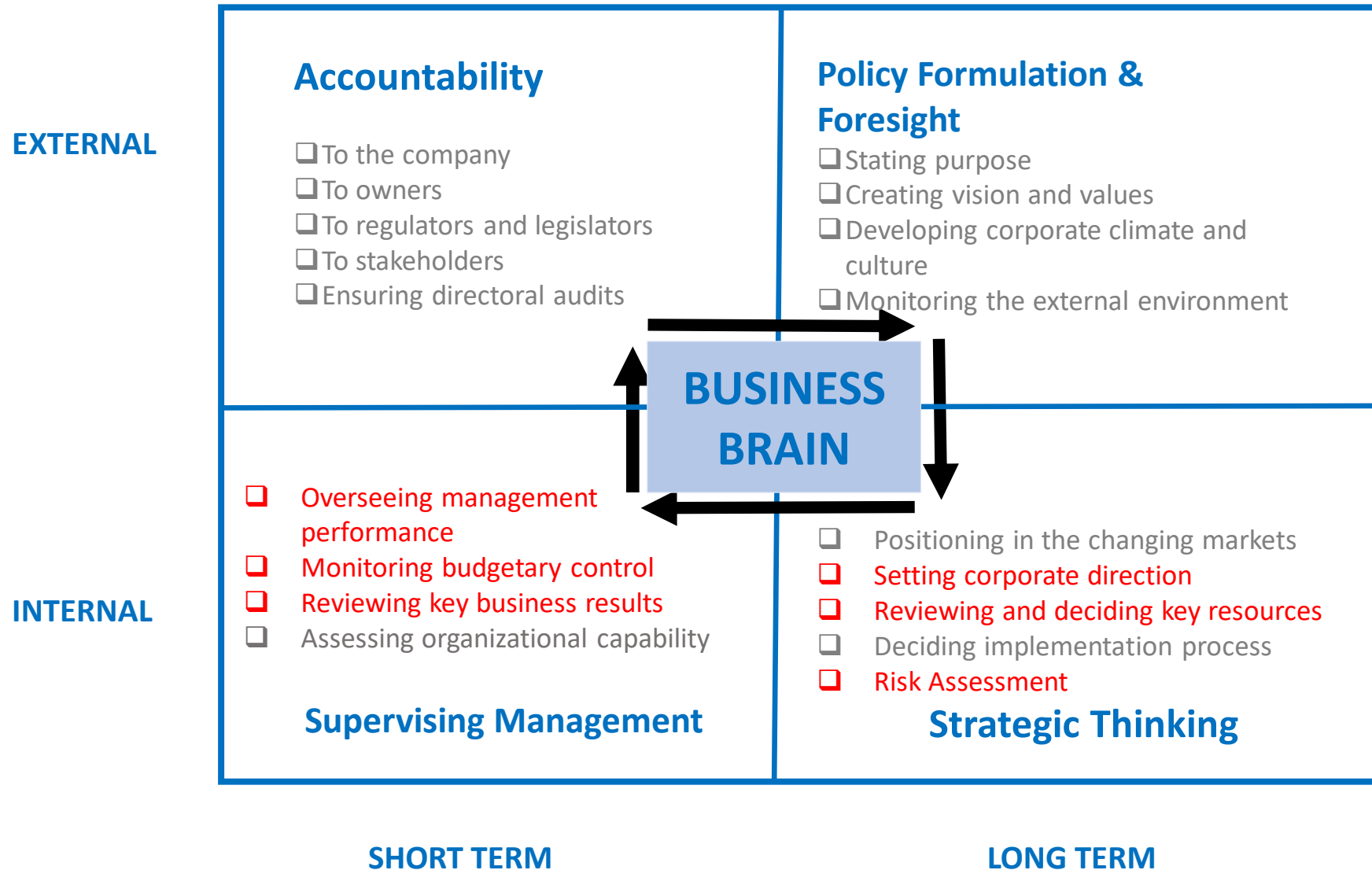
- Statement of Comprehensive Income
- Statement of Financial Position
- Cash flow
- Budgets & Business Plans
- Management Accounts
- Financial Statements & Financial Reporting
- Key performance measures including VFM
- Treasury Management
- Financial Risk Management

Finance fundamentals

– Part II

- Statement of Comprehensive Income
- Statement of Financial Position
- Cash flow
- Budgets & Business Plans
- Management Accounts
- Financial Statements & Financial Reporting
- Key performance measures including VFM
- Treasury Management
- Financial Risk Management

The Learning Board — from “The Fish Rots from the Head” by Bob Garratt



Finance fundamentals

- Statement of Comprehensive Income
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- Financial Statements & Financial Reporting
- Key performance measures – VFM
- Treasury Management
- Financial Risk Management

What is treasury management?

- Simply put, treasury management is the **management of all financial affairs** of the business such as raising funds for the business from various sources, currency management, cash flows and various strategies and procedures of corporate finance.

Why is it important?

- The key goal of treasury management is planning, organizing and controlling cash assets to satisfy the financial objectives of the organization. The goal may be to maximize the return on the available cash or minimize interest cost or mobilize as much cash as possible for corporate ventures.
- In essence, treasury management is designed to decrease financial and operational risk while optimizing an organization's liquidity.

Treasury Management

Role of the board

- Must understand given the risks and materiality for borrowing organisations
- RSH & funders pays close attention to Treasury management

Key elements to understand

- Balance sheet – Short/Long term creditors (Loans) (Gearing)
- Interest – cost of money borrowed, significant expense on Income statement
- Liquidity – making sure funds are in place when needed (cash flow)
- Covenants – restrictions imposed by lenders which also reflect performance (Interest cover, Loan to value, gearing)
- Security – properties (assets) pledged against a loan

Treasury Management

Where to seek assurance

- Treasury Advisors & sector publications
- Management explanations
- Compliance with Treasury Policy
- Compliance with Covenants

Good Questions to ask

- Is there sufficient funding in place to cover future development/investment activities?
- What are the key treasury risks and how are they being managed?
- How do we know that there are no anticipated covenant breaches?
- Are our financing costs providing good value for money?

Financial or Loan Covenants

- Financial covenants are **promises or agreements entered into by a borrowing party that are financial in nature.** Covenants are promises or agreements entered into by a borrowing party to comply with the terms agreed upon in relation to a loan agreement.

What you need to understand

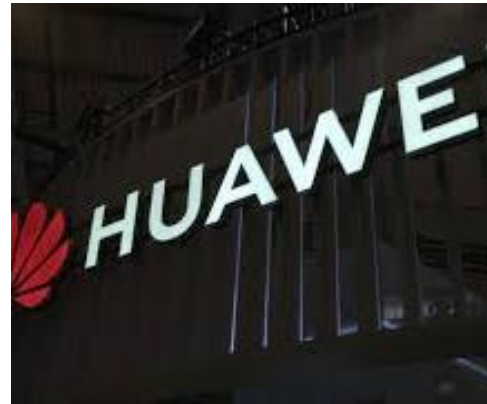
What are the key covenants in place?

What assurance is provided from management that the covenants are being and will continue to be met.

What mitigation plans are in place to prevent a covenant breach and how and when will these plans be triggered.

Finance fundamentals

- Statement of Comprehensive Income
- Statement of Financial Position
- Cash flow
- Budgets & Business Plans
- Management Accounts
- Financial Statements & Financial Reporting
- Key performance measures – VFM
- Treasury Management
- **Financial Risk Management**



Covid & Brexit Considerations

Deteriorating housing market conditions

Interest, inflation and currency risk

Access to Finance

Availability of Labour

Access to materials and components

data

Tenancy failure

Energy costs

Understanding and managing financial risk

Role of the board	What are key financial risks	How they are managed
<ul style="list-style-type: none">Set the direction (policy/framework/appetite)Provide challenge on risks and the risk management processGather assuranceCommunicate with stakeholders	<ul style="list-style-type: none">Delivery of business and financial plansCash flow management/Covenant complianceDiversification/Growth (esp associated with Development sales risk)Economic environment (Brexit, inflation, interest rates, supply chain)	<ul style="list-style-type: none">Budget/Business planning, stress testing & mitigation planningInternal Audit,Professional advice (Treasury, specialist advisors)Financial Parameters/Golden Rules

Understanding and Managing Financial Risk

What assurance to seek

- Reports from Internal and External Audit & specialist advisors
- Financial performance measures
- Treasury reports/updates
- Management accounts
- Multi variate Stress Testing, mitigation plans
- Sector Risk Profile

Good questions to ask

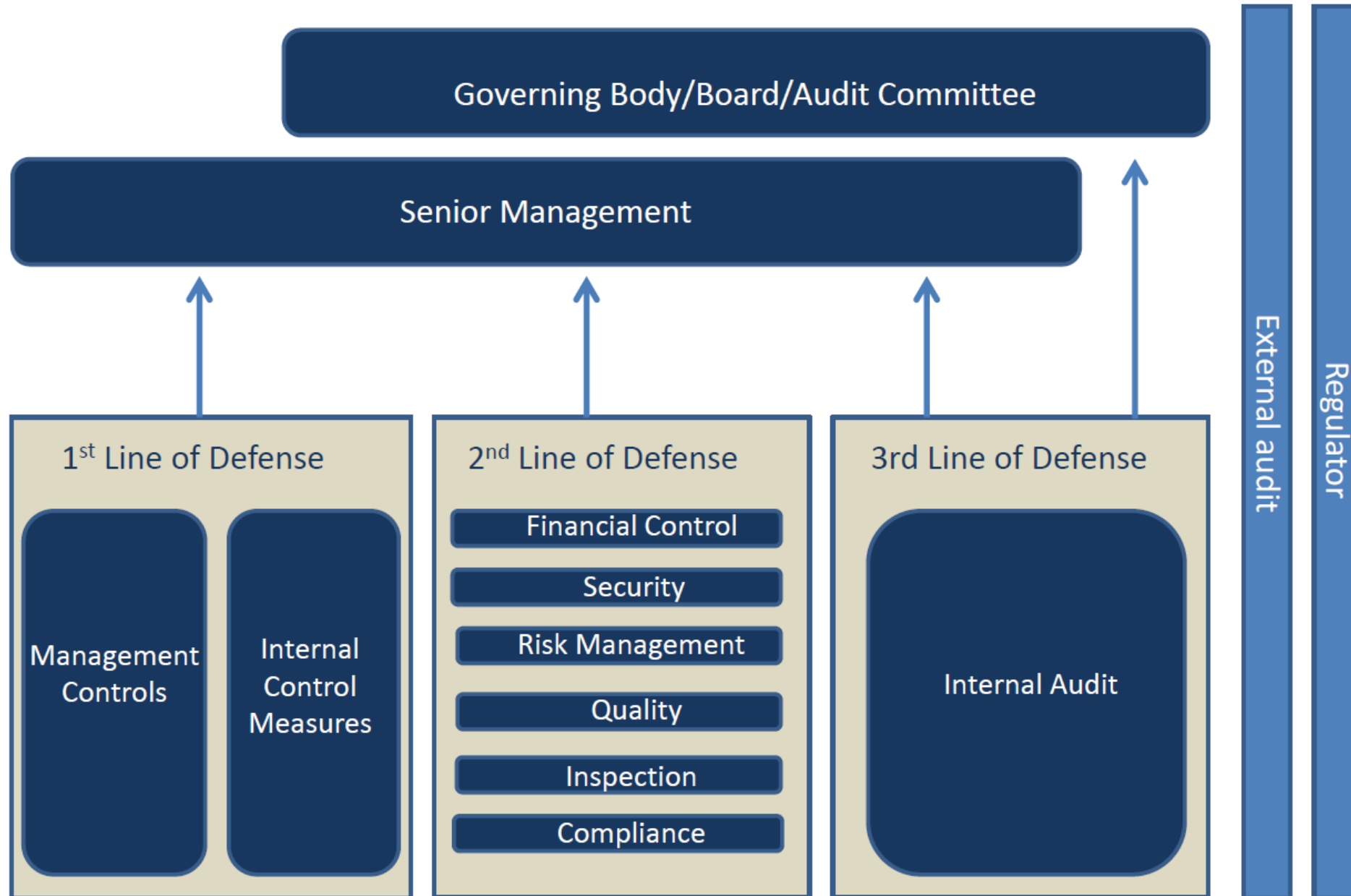
- Are the financial risks being managed within the approved risk appetite?
- Will the mitigation or contingency plans be effective within the time available once triggered?
- How are emerging financial risks identified and reviewed for impact?

Sector Risk Profile 2021 - Contents

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The Three Lines of Defense Model



Q&A &
Discussion

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“I found this in the hall. Call Accounting and find out if they’ve misplaced a decimal point again.”

Recommended further Reading

- “The Fish Rots from the Head – Developing Effective Board Directors”, Bob Garret
- “Finance De-mystified”, National Housing Federation
- “Risk Management”, National Housing Federation
- “Understanding Assurance”, National Housing Federation
- From the Regulator of Social Housing
 - Governance & Viability Standards
 - VfM standard
 - Sector Risk Profile 2021