

FIN007 – Treasury Management Policy

MONITORING FORM	
Department	Finance
Department Director [Title]	Finance Director
This policy is applicable to	
Author	Finance Manager
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Approved by	Board
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Internal/external consultees (if required)	N/A

1. INTRODUCTION

- 1.1 Weslo Housing Management Treasury Management Policy will be operated by the following key principals:

2. PRINCIPLES

- 2.1 The company 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 company.

- 2.2 The company 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 techniques, within the context of effective risk management.

- 2.3 The company is committed to the highest standard of governance and acknowledges the importance of transparency, integrity and accountability in its treasury management activities. In particular it recognises the Scottish Housing Regulators guidance on:

a. **Treasury Management – Recommended Practice**

We are fulfilling the regulatory expectations around treasury management.

- b. **The Standards of Governance and Financial Managements for RSL's** We ensure compliance with the seven standards making up the code of conduct.

c. **Determination of Accounting Requirements**

We ensure compliance with the Determination and the requirements to submit information.

d. **Financial Viability of Registered Social Landlord**

Ensure we are financially sound and a viable business

e. **Preparation of the Financial Statements**

Ensure the reporting requirements for RSL's are met when preparing their Financial Statements.

- 2.4 The company is guided by the Chartered Institute of Public Finance (CIPFA) and Accountant in Treasury Management in Public Services: Code of Practice and Cross-Sectional Guidance Notes (2017 Edition) but retains the right to vary actions if these are deemed to be in the best interests of the company.

3. SCOPE

- 3.1 For the purposes of this policy it is deemed to include the following organisations: Weslo Housing Management and its subsidiary, Weslo Property Management, all employees (permanent, temporary or contracted) and any other stakeholder if relevant to the Policy.
- 3.2 Policy detailed includes how the company will partake of funding and borrowing from external sources and lending or investing surplus cash balances. Also contained is the company policy to cover cash, cashflow management and the details of the company's delegated authority for the treasury activities and its reporting requirements.
- 3.3 The Board is responsible for the approval and regular review of the Treasury Management Policy and monitoring of its implementation but has delegated the authority of treasury management decisions and activities to the Senior Management Team.

4. CONTENT

- 4.1 The company defines its treasury management activities as:

The management of the company's cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- 4.2 The main treasury management activities include:

- a. Borrowing for development of housing projects
- b. Borrowing for one off purposes
- c. Investing surplus funds
- d. Arranging overdraft facilities
- e. Managing our resources to fund capital investment

- 4.3 Contained within the CIPFA code of practice are twelve treasury management practices which the company will guided by during the scope of its treasury management activities they are detailed as:

- a. **TMP1:** - Risk Management
- b. **TMP2:** - Best Value & Performance Measurement
- c. **TMP3:** - Decision making and analysis
- d. **TMP4:** - Approved instruments and sources, methods and techniques
- e. **TMP5:** - Organisation, clarity and segregation of responsibilities, and dealing arrangements

- f. **TMP6:** - Reporting requirements and management information arrangements
- g. **TMP7:** - Budgeting, accounting and audit arrangements
- h. **TMP8:** - Cash & Cash flow management
- i. **TMP9:** - Money laundering
- j. **TMP10:** - Staff training & qualifications
- k. **TMP11:** - Use of external service providers
- l. **TMP12:** - Corporate governance

5. TMP1 – RISK MANAGEMENT

- 5.1 The key objective of the company is to ensure that its resources are safeguarded and not subject to unnecessary risk. Accordingly, robust procedure to ensure due diligence are in place to ensure risks are avoided or minimised.
- 5.2 All the treasury management activities will be monitored, and risk will be identified, controlled and managed and Board will receive an annual report of the adequacy and suitability of the risk management. Any checks that impact on the delivery of the company will be reported to Board as a matter of urgency. Specific risks monitored and reported on include:
- a. **Credit and counterparty risk management**
The company will ensure that counterparty lists and limits reflect a prudent attitude to those who funds may be deposited with. Using only financial instruments as listed in the schedule to *TMP4 Approved instruments, methods & techniques*. A formal counterparty policy will be maintained for the organisations it may borrow from or enter into another financing arrangement with. Schedule 1
 - b. **Liquidity risk management**
The company will ensure that it has adequate but not excessive cash resources and borrowing arrangements to enable it at all times to have the level of funds available to meet an average of a single months' worth of expenditure approximately as detailed in Schedule 2.

The company will only borrow based in advance of need and where there is a clear business case for doing so and will only do so for the capital programme and to fund future development opportunities. Details of how liquidity will be managed are contained in Schedule 2.
 - c. **Interest rate risk**
The company will manage its exposure to changes in interest rate with a view to containing its costs whilst securing revenue streams, in line with the amounts that have been provided for in its budgets arrangements and in line with its *TPM6 Reporting requirements and*

management information and TMP4 Approved instruments, methods & techniques, this will be achieved by a prudent approach to create stability and certainty around costs and revenue whilst retaining flexibility to allow advantage to be taken of any favourable shifts in interest rates. As detailed in Schedule 2.

d. Exchange rate risk management

The company will manage its exposure to fluctuations in exchange rate so as to minimise any adverse impact on its budgeted income and expenditure levels.

e. Inflation rate risk management

Rigorous stress testing and sensitivity analysis will be carried out on its treasury assets and liabilities to monitor the effects of inflationary increases and decreases. Any associated risks will be managed in the context of the company's whole exposure to interest rates.

f. Refinancing risk management

The company will ensure that its borrowing and finance arrangements are negotiated, structured and documented. The maturity profile of the portfolio will be managed with a view to obtaining offer terms for renewal or refinancing which are competitive and as favourable to the company can be reasonably expected in terms of prevailing market conditions.

The relationships with its counterparties will be actively managed with this as the primary objective and will avoid overreliance on any one source of funding or any one counterparty should it be judged to jeopardise the primary objective.

g. Legal and regulatory risk management

The company will ensure that its treasury management activities comply with statutory power and regulatory requirements. It will evidence such compliance as required to so and to all parties who it deals with in such activities. In line with *TMP1 Credit and counterparty risk management* the company will ensure it has evidence of counterparties powers, authority and compliance regarding transactions they have with the company particularly those relating to duty of care and fees charged.

h. Fraud, error, corruption and contingency management

The company will ensure that it has identified the circumstances which may expose it to risk of loss through fraud, error, corruption or other eventualities in its treasury dealings. Procedure will be in place to ensure that robust control systems are being used and will have in place effect contingency management processes, to these ends.

i. Price risk management

The company will ensure that its treasury management policies and objectives will not be compromised by adverse market fluctuations in the values of the sums it invests and will seek to protect itself from the effects of such fluctuations.

6. TMP2 – PERFORMANCE MEASUREMENT

- 6.1 The company is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management Policy.
- 6.2 Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the company's business and 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.
- 6.3 Decisions made in the management of the treasury function will be measured and evaluated against objectives and parameters set in advance. It is important therefore that the reasons for undertaking specific transactions and decisions are clearly recorded as set out in *TMP3 Decision Making & Analysis*. The treasury management function will be reviewed on a regular basis looking at methods employed to deliver the service and comparing these best practice and current guidelines. Key performance indicators are detailed in Schedule 3.

7. TMP3 – DECISION MAKING AND ANALYSIS

- 7.1 The company 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 below in Schedule 4.

8. TMP4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

- 8.1 The company will undertake its treasury management activities by employing only those instruments and sources, methods and techniques detailed in Schedule 5, and within the limits and parameters defined in TMP1 Risk Management.

9. TMP5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

- 9.1 The company considers it essential, for the purposes of 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 at all times there is a clarity of treasury management responsibility.

- 9.2 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.
- 9.3 If and when the company intends, as a result of a lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that these instances are reported to the Board and the reasons will be properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.
- 9.4 The responsible officer will ensure that there is clear written statement of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure all those involved follow the policies and procedures set out. Schedule 6 sets out the arrangements.
- 9.5 The delegations to the responsible officer in respect of treasury management are set out in Schedule 6

10. TMP6 – REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

- 10.1 The company 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 these policies and on the implementation of changes. In particular budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities and on the performance of the treasury management function.
- 10.2 The Board will receive:
- a. An annual report on the treasury management strategy being pursued by the company throughout the financial year after approving the budget and business plan.
 - b. A mid-year update (based on end of August results and presented at the most convenient Board meeting thereafter) / review on progress of the strategy.
 - c. 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 organisations treasury management policy statement and TMPs. As detailed in Schedule 3.

- d. An annual update on the company's long-term treasury management position contained within the Business plan's 30-year cash flow.

11. TMP7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- 11.1 The responsible officer will prepare, and the company will approve an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, and the associated income. The responsible officer will also provide any amendments or changes to the budget. Included within the budget will be at a minimum the information required by statute and to ensure compliance with *TMP1 Risk Management, TMP2 Performance Measurement and TMP4 Approved Instruments, methods and techniques*. Effective control will be exercised over the budget and any recommended changes will be reported on in accordance with *TMP6 Reporting requirements and management information arrangements*.
- 11.2 The company will account for its treasury management activities, decisions made, and transactions executed in accordance with Accounting Standards contained within the Housing Association Statement of Recommended Practice and relevant Scottish Housing Regulator guidance and recommended practice.

12. TMP8 – CASH AND CASHFLOW MANAGEMENT

- 12.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the company will be under the control of the Finance Director 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 Director will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1) liquidity risk management. The present arrangements for preparing cash flow projections are set out in Schedule 7.

13. TMP9 – MONEY LAUNDERING

- 13.1 The company is alert to the possibility that it might 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 are properly trained. Reports in respect of money laundering should be made to a member of the Senior Management Team.

14. TMP10 – TRAINING AND QUALIFICATIONS

- 14.1 The company 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 Senior Management Team will recommend and implement the necessary arrangements.

- 14.2 The Senior Management Team will ensure that the Board members tasked with scrutiny around treasury management will have access to training relevant to their needs and those responsibilities.

15. TMP11 – USE OF EXTERNAL SERVICE PROVIDERS

- 15.1 The company recognises the potential value of employing external providers of treasury management services, in order to acquire 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. Any such appointment will only be made with Board approval.
- 15.2 The company 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. Where services are subject to formal tender or re-tender arrangements, procurement legislative requirements will always be observed. The monitoring of such arrangement's rests with the Finance Director.

16. TMP12 – CORPORATE GOVERNANCE

- 16.1 The company is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establish 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.
- 16.2 The company has adopted and implemented the key principles of the CIPFA Code and together with other arrangements detailed in the schedules to this document, is considered vital to the achievement of proper corporate governance in its treasury management.

17. EQUALITY & DIVERSITY

- 17.1 This Policy will always be carried out in accordance with Weslo's Policy of Equality & Diversity which aims to promote diversity, fairness, social justice and equality of opportunity by adopting and promoting fair policies and procedures.

18. PUBLICISING & AVAILABILITY

- 18.1 This policy is available on the Weslo website, to Board and staff members and any other key stakeholders. Copies are available free of charge. A

summary of this policy can be made available in other formats and languages.

19. MONITORING & REPORTING

- 19.1 This policy will be reviewed regularly to ensure compliance with applicable legislative changes, changes within the organisation and best practice.

SCHEDULE 1

COUNTERPARTY LIST, LIMITS AND MAXIMUM TERMS

Investing

Bank / Financier	Maximum Term	Investment Limit
Royal Bank of Scotland	12 months	£5,000,000
Nationwide Building Society	12 months	£5,000,000
HSBC Holdings	12 months	£5,000,000
Santander	12 months	£5,000,000
Barclays PLC	12 months	£5,000,000
Lloyds Banking Group	12 months	£5,000,000

Borrowing / Financing

Bank / Financier	Maximum Term	Borrowing Limit
Royal Bank of Scotland	25 Years	£25,000,000
Nationwide Building Society	25 Years	£35,000,000
HSBC Holdings	25 Years	£5,000,000
Santander	25 Years	£5,000,000
Barclays PLC	25 Years	£5,000,000
Lloyds Banking Group	25 Years	£5,000,000

All traditional bank funding must be undertaken with banks or building societies authorised by the Financial Conducts Authority. Any borrowings out with traditional loan finance such as a Bond or a Private Placement will be considered on an individual basis, information will be provided to Board and external providers with relevant experience and specialist skills will be used to provide assistance.

SCHEDULE 2

RISK MANAGEMENT ARRANGEMENTS

Liquidity Risk Management

Liquidity will be managed by:

- a. The daily monitoring of cleared bank balances
- b. Effective cashflow forecasting and monitoring systems to identify shortfall against available facilities
- c. Diversifying risk by spreading available facilities through different counterparties
- d. Minimising borrowing by only drawing down funds when required as minimum level of liquidity is reached
- e. Monitoring the spread of maturities on current facilities

Liquidity will be sourced by the following:

- a. Committed loan facilities
- b. Cash deposits and investments at hand
- c. Bank overdraft facilities with main relationship bank.

Minimum liquidity level:

- a. Level to be set at an average of 1 month's expenditure which is approximately £1,000,000.

Loan Administration

- a. A process will be in place to manage drawdowns, security balances, capital repayments, interest and fees.
- b. A process will be in place for checking the security applied to each facility to ensure sufficient security is in place ahead of facility sign up.

Interest Rate Risk Management

- a. The company will also seek to minimise risk by varying the length of fixed rate facilities on long term debt and mixing long term debt between variable and fixed rate.
- b. A bi-annual report will be provided to the Board and a split of 70% will fixed for the long term with 30% being held on short terms fixes or on LIBOR although this may be varied at the discretion of The Board in exceptional circumstances. Long term will for the purpose of fixing will be defined as over 1 year, with short term being less than 1 year.

SCHEDULE 3

KEY PERFORMANCE INDICATORS

The treasury function does not lend itself to easily measurable performance indicators. Its nature is to protect and enable the rest of the business yet factors out with the control of the business can greatly influence performance.

A more appropriate approach could be to undertake an annual review which encapsulates all the elements that are required to make up effective treasury management. This could take the form of an annual check list:

Purpose

- a. Does the treasury function have a clearly defined purpose?

Business Planning & Budgeting

- a. Has the business plan been tested for capacity in relation to future development with different interest rates, inflation scenarios?
- b. Have the business plan assumptions been tested against market expectations?
- c. What are the levels of inflation and interest rates required to 'break' the business plan?
- d. Have the variances between budget and actuals been identified and adequately explained?
- e. What steps have been taken to improve the forecasting for the next financial year?
- f. Have pension assumptions and risks been factored into the business plan?

Execution

- a. Were competitive prices sought in all treasury opportunities?
- b. Have transaction costs been reported?
- c. Are the transaction costs reasonable based on past experience and market costs?

Cash and Liquidity

- a. Has the investment decision been reviewed, and market tested in the period?
- b. What plans are in place if cash balances have to be moved at short notice and have these been tested?

Funding and Security

- a. Are plans for securing funding formulated well in advance?
- b. Have opportunities to generate saving through refinancing been explored?
- c. Is there a back-up plan if the expected funding route is unsuccessful?
- d. Is there a plan if valuations are unfavourable?
- e. What is the strategy for security charging?
- f. Are there enough unsecured assets to meet future plans?

Compliance and Reporting

- a. Has the treasury management policy been met in terms of the reporting requirements?
- b. Have instances of non-compliance been reported to the Board?
- c. Have all the loan covenants and conditions been met?
- d. Have all regulatory returns been completed and were they on time?

Investment Appraisal

- a. Have the methods used for investment appraisal been reviewed and benchmarked against peers?

SCHEDULE 4

DECISION MAKING AND ANALYSIS

In respect of every decision made the company should:

- a. Be clear about the nature and the extent of the risks to which the company may be exposed.
- b. Be certain about the legality of the decision reached and the nature of the transaction and that the proper authority has been obtained.
- c. Be content the documentation is adequate and will deliver the companies objectives whilst protecting the company's interests.
- d. Ensure due diligence has taken place.
- e. Ensure that counterparties have been risked assessed and limits have not been breached.

In respect of borrowing and other funding decisions the company should:

- a. Consider the existing revenue liabilities and new ones over the long term and consider the implications for the future plans and budgets.
- b. Evaluate the economic implications and market factors that could influence the nature and timing of any funding decisions.
- c. Consider the pros and cons of alternative forms of funding.
- d. Consider alternative interest rate bases available, the most appropriate term and the repayment profile.

In respect of investment decisions, the company should:

- a. Consider the risks to capital and any future returns and the impact there could be on future plans and budgets.
- b. Consider the optimum period, when looking at cashflow availability and current market conditions.
- c. Consider alternative investment products techniques and do so with a view to protecting capital sums.

SCHEDULE 5

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Borrowing and Financing

The Finance Director with delegated authority from the Board is responsible for overseeing all funding activities on behalf of the company. No commitment should be entered into without the specific approval of the Board. The Board is tasked with considering, scrutinising and constructively challenging any new funding prior to approval.

Prior to committing to borrow funds the Finance Director should consider:

- a. Lenders track record and risk profile.
- b. Borrowings required
- c. Interest rate structure
- d. Basis of interest rate
- e. Loan term
- f. Availability of capital holiday
- g. Lenders margin
- h. Arrangement fees
- i. Non-utilisation fees
- j. Security requirement
- k. Legal fees
- l. Drawn down requirements
- m. Any savings for refinancing
- n. Comparison with alternatives
- o. Assessment of loan documentation
- p. Loan covenants
- q. Penalty clauses
- r. Early redemption costs
- s. Compliance with key strategies

In all cases finance will be subject to the following parameters:

- a. Security given will be by way of a fixed charge
- b. Gearing ratio should not exceed 70% of loans as a proportion of historic cost of fixed assets.
- c. Loan terms should not exceed 25 years.

Appropriate Methods of Funding

The company may borrow by way of overdraft, revolving credit facility, term loans, bonds and private placements within the limits and terms as agreed within the policy and on either delegated authority or Board approval in the case of a bond or private placement.

Terms and Conditions of Borrowing and Financing

- a. The Chief Executive is responsible for ensuring that all borrowing is executed on the best commercial terms possible. The Finance Director is responsible for advising the Chief Executive concerning the terms.
- b. Weslo will seek to ensure that covenants levels are in excess of the limits imposed in its loan agreement at all times.
- c. Weslo will endeavour to ensure that its borrowing arrangements permit the maximum flexibility to release and substitute security.
- d. Weslo will ensure that all aspects surrounding fixing are considered from a risk perspective and that breakage costs are calculated in advance of entering into a fix.

Investing

Subject to the limits and criteria specified in Schedule 1, the company may invest surplus funds in the following approved instruments.

- a. Short term deposits (up to one year)
- b. Long terms deposits (more than one year) with Board approval.

SCHEDULE 6

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

TREASURY FUNCTION	DELEGATED POWER TO
Approval of the Treasury Management Policy	Board
Preparation of the Treasury Management Policy	Finance Director
Approval of the Annual Treasury Management Strategy - Per Annual Budget	Board
Approval of new borrowing – term loans	Board
Reviewing the annual performance of the treasury function	Board
Ensuring compliance with the Treasury Management Policy	Board
Approval of new borrowing - private placements and bonds	Board
Approval of the use of external consultants for treasury management expertise	Board
Amendments to counterpart list as per Schedule 1	Finance Director
Investing surplus cash as Schedule 1	Finance Director
Opening new bank accounts	Finance Director
Reporting Treasury activity to Board	Finance Director
Ensuring adequate financial systems are in place to deliver an effective Treasury Function	Finance Director
Day to day management of the treasury function	Finance Manager
The day to day management of the Company bank accounts and cash flows	Finance Manager
Reviewing compliance with policies, procedures	Internal Audit

Statement of Responsibilities

Finance Director

- a. Determine the borrowing and investment strategy of the company
- b. Ensure appropriate systems and documentation is in place to provide an adequate treasury management function.
- c. Ensure proper chain of command and segregation of duties exists in the carrying out of the treasury management function and that staff are properly trained
- d. Ensure that the activities of the treasury management function are accurately and promptly reported to the Board.

Finance Manager

- a. Ensuring the day-to-day management of the treasury management function complies with approved policies and procedures.
- b. Ensure compliance with treasury management documentation and that all directions and limits are complied with.
- c. Ensure the implementation of adequate segregation of duties and staff training.
- d. Ensure the completion of the daily banking transfer reports.
- e. Ensure the reconciliation and management on a day-to-day basis, the bank accounts and cash balances.
- f. Ensure that an effective and accurate record of all transactions is kept.

SCHEDULE 7

CASH AND CASHFLOW MANAGEMENT

The Finance Director will, following the approval of the annual budget by the Board prepare a monthly profile for all items of income and expenditure contained in the budget. Actual income and expenditure will be monitored on a monthly basis against profiles with variances highlighted and explained in the commentary that accompanies the Budgetary Control Reports presented to the Board at every meeting.

At the end of August, a Half Year Review will be carried out with any necessary revisions made to forecast outturns. As part of this process a revised profile will be prepared for each item of income and expenditure which reconciles to the amended forecast outturn.

The Finance Director will report to the Board details of these changes and get Board approval for the revised budget. For the remainder of the year income and expenditure will be monitored against the revised profiles with forecast outturns being adjusted where necessary.