



## Treasury Management Policy – April 2016

### Purpose

The policies and objectives of treasury management activities of Edinburgh Napier University (“the University”) are set out in this Statement.

### Summary

1. The University will manage its cash resources mindful of three key elements, in order of importance:
  - a. **Security.** Confidence that the sum deposited will be returned
  - b. **Liquidity.** Must be maintained at a level adequate to meet operational needs
  - c. **Yield.** Appropriate for the size, duration and type of investment
2. In any decisions over cash deposits, the security of cash deposited takes precedence recognising that the complete avoidance of risk is not possible –i.e. a balance must be struck. The policy of the University on borrowing is to minimise cost while maintaining the stability of the University’s financial position by sound debt management techniques. The objective for cash deposits is to achieve the best possible return while minimising risk.
3. The University defines its treasury management activities as:  
“The management of the University’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
4. The University 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 University.
5. The University acknowledges that effective treasury management will provide support towards the achievement of its business objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable performance measurement techniques within an effective risk management framework.
6. The University follows the key recommendations of CIPFA’s Treasury Management in the Public Services/Code of Practice and Cross-Sectoral Guidance Notes.
7. The Treasury Management Policy Statement and Policies set out here will apply to subsidiaries of the University whose results are consolidated into the University’s annual accounts, subject to any deviation that has been approved by University Court.

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## Treasury Management Practices

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# Treasury Management Policy – April 2016

## TMP1 Risk management

### 1. General statement

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the University's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, where applicable, the arrangements which seek to ensure compliance with these objectives are set out in the Schedules to this document.

### 2. Credit and counterparty risk management

The University regards the 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 institutions with which funds may be deposited, and will limit its investment activities to the instruments and counterparty limits detailed in this Statement and its Schedules.

### 3. Liquidity risk management

The University will ensure it has adequate cash resources, borrowing arrangements, overdraft or other facilities to enable it at all times to have the level of funds available necessary for the achievement of its business objectives. It will do this by maintaining an effective cash flow forecasting and monitoring system which will identify the extent to which the organisation is exposed to any impact of potential cash flow variations and shortfalls.

### 4. Interest rate risk management

The University will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with its budgetary objectives.

It will achieve this by using reliable and informed sources of information and advice on the likely future courses of interest rates, exchange rates and inflation, to enable it to assess future treasury risk and scenarios, and to permit the effective management and control and development of suitable risk management strategies.

It will make prudent use of approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues. In so doing it will retain a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

All arrangements referred to in this section will be in accordance with TMP6 Reporting requirements and management information arrangements.

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## 5. Exchange rate risk management

The University will not expose itself to unnecessary or speculative exchange rate risk. The University will retain funds in currencies only to the extent that payments are due to be made in these currencies. Currency receipts surplus to this will be transferred into sterling at regular intervals at the best rate achievable.

## 6. Inflation Risk Management

The effect of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the University as an integral part of its strategy for managing its overall exposure to inflation.

## 7. Borrowing and refinancing risk management

The University 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 University as can reasonably be achieved in the light of market conditions prevailing at the time. The University will not enter into funding arrangements where the repayment profile of the loans exceeds the expected useful economic life of the asset or venture being financed.

The University will seek to ensure that, where possible, new funding arrangements will not be entered into that bind the University to meet financial covenants and security arrangements which are deemed to be more onerous than those contained within the current loan documentation. In the event that new arrangements are more onerous than those being replaced this will be reported to the Finance & Property Committee.

The financial position of the University is monitored on a regular basis to ensure it does not breach any of its existing financial covenants.

## 8. Legal and regulatory risk management

The University 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.

The University recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to address this risk of as part of its normal risk management practices.

## 9. Fraud, error and corruption, and contingency management

The University will identify any risk of exposure to loss through fraud, error, corruption or other eventualities in its treasury management dealings and will employ suitable control systems and procedures and, where appropriate, effective contingency management arrangements.

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## TMP2 Value for money and performance measurement

1. The University 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.
2. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the University's business 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 as set out in this document.
3. The University's Treasury Management operation is undertaken with limited resources and therefore has limited scope to review value for money and undertake market testing for performance measurement. However, the University operates a procurement policy to promote value for money and the Treasury Management operation is encompassed within that remit. Value for money from external services, where applicable to the Treasury Management function, will be ensured by following a periodic tendering process. The tender process will be that normally followed by the University, contained within the University's detailed purchasing procedures. In assessing the value added by the providers of external services, account will be taken of all relevant factors, including the cost, quality, reliability and scope of the service to be provided.
4. The benchmark for interest earned on self-managed funds will be:
  - a. under £ ½M base-rate less ½ %
  - b. over £ ½M base-rate

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## TMP3 Decision-making and analysis

1. The University 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.
2. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Schedules to this document.
3. The University is alert to the possibility that it may 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 its staff members are properly trained where applicable.
4. In making key decisions regarding its treasury management activities the University will ensure that proper consideration is given to all relevant factors. These will include:
  - a. The risk appetite of the University
  - b. The requirements of the University's regulatory environment
  - c. The budgetary constraints and financial covenants within which the University operates
  - d. Prevailing economic conditions and interest rate and economic forecasts
  - e. The bank and capital funding market conditions
  - f. Available investment and treasury management instruments and funding options
  - g. Subsidiary company borrowing and investment requirements
5. The Director of Finance will be responsible for ensuring that the outcome of such decisions is effectively communicated to any officer of the University who may be involved in implementing those decisions.
6. The Director of Finance is authorised, subject to the provisions of the policy statement, to:
  - a. invest surplus funds of the University with the approved institutions listed in TMP4. Investments must be of the approved types listed in TMP4
  - b. borrow funds subject to the strategy agreed by University Court.

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## TMP4 Approved instruments, counterparties, methods and techniques

1. The University will undertake its treasury management activities by employing only those instruments, methods and techniques as recommended in the CIPFA Code of Practice, and within the limits and parameters defined in TMP1 Risk management.
2. All funds must be invested in secure and readily realisable investments.
3. Investments of the following types are permitted in normal market conditions:
  - a. Banks and Building Societies:
    - i. Deposits with approved banks and building societies:
      1. for designated available liquidity, maximum maturity 3 months
      2. for sums available in excess of available liquidity, maximum maturity at the discretion of the Director of Finance
  - b. Currency swaps, options and similar contracts to hedge the University's exposures
  - c. UK Money Market funds
4. In exceptional market conditions, investments may be made in:
  - a. UK Treasury Bills
  - b. UK Gilts
5. The list of approved Counterparties is set out in Schedule 1 to this Statement.
6. The minimum amount of available liquidity is set out in Schedule 2 to this Statement.
7. The approach to manage Exchange Rate risk is set out in Schedule 3 to this Statement.

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## TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

1. Responsibilities are set out in Schedule 4 to this Statement.
2. The University considers it essential that treasury management activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities. This is to ensure the effective control and monitoring of its treasury management activities, the reduction of the risk of fraud or error and for the pursuit of optimum performance.
3. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University will be under the control and responsibility of the Director of Finance, 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 Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with the TMP1 section regarding liquidity risk management.
4. 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.
5. If and when the University intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance 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.
6. The Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The Director of Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.



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## TMP6 Reporting requirements and management information arrangements

1. The University will ensure that regular reports are prepared and considered on the:
  - a. implementation of its treasury management policies
  - b. effects of decisions taken and transactions executed in pursuit of those policies
  - c. implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities
  - d. performance of the treasury management function
  
2. As a minimum, the Finance & Property Committee will receive:
  - a. An annual report on the strategy and plan to be pursued in the coming year
  - b. An annual report on the performance of the treasury management function
  - c. Ad hoc reports on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs. The report will include the reasons for and the effects of any changes to the strategy set at the beginning of the year
  - d. Exception reports on a timely basis of any event (including but not limited to a breach or potential breach of the organisation's financial covenants with lenders) that is likely to have a material adverse effect upon the organisations finances and continued operations with proposals for rectifying or ameliorating the effect of such an event.
  - e. Proposed amendments to criteria for approved counterparties
  
3. The following matters should be included in the Reports to the Finance Committee as a separate report or as part of the Management Accounts and/or as part of reports on the annual budgeting and planning process.
  - a. Cash flow compared with budget and commentary on variances
  - b. Cash flow forecasts for the next and following three financial years, including details of borrowing maturities during this time
  - c. Proposed amendments to the treasury management policy statement
  - d. Analysis of current outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover period
  - e. Details of all financial instruments used during the period under review (including interest rate or currency swaps) and any arrangement whereby a fee has been paid based on positions taken on future exchange or interest rates
  - f. A schedule of monies paid to all providers of services relating to treasury management (including service providers identified in TMP 8) analysed between interest paid, interest received and fees
  - g. An annual review of foreign currency income, expense and treasury transactions

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## TMP7 Training and qualifications

1. The University 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.
2. 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 Director of Finance will recommend and implement the necessary arrangements.
3. The Director of Finance will ensure that Finance & Property Committee members and other non-Treasury staff tasked with treasury management responsibilities, including those responsible for scrutiny, receive training relevant to their needs and those responsibilities.

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## TMP8 Use of external service providers

1. The University recognises that whilst at all times responsibility for treasury management decisions remains with the University there is the potential value of 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 subjected to regular review.
2. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.
3. The terms of engagement will formally require the external managers to be bound by the requirements of this statement
4. External managers may be appointed with responsibility for day to day treasury matters, but the University will retain full responsibility for the safeguarding of its funds and for setting the treasury strategy. Consequently all the matters set out in this statement would continue to apply to those areas of treasury management with which the external managers might deal including, in particular, the policy for interest rate exposure and credit policy, although it is recognised that the external managers would be consulted in drawing up the aspects of treasury policy relevant to their work.
5. Finance & Property Committee is responsible for the appointment of the service provider, for the following services, which will be subject to review of the requirement to tender at least once in five years:
  - a. Banking services
  - b. Cash deposit services
  - c. Fund management services
6. The monitoring of such arrangements rests with the Director of Finance.

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## TMP9 Corporate governance

1. The University is committed to the pursuit of proper corporate governance throughout its businesses 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.
2. The University 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 during the applicable period.
3. The University has adopted and has implemented the key recommendations of the CIPFA Code of Practice. This, together with the other arrangements detailed in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.
4. The University will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements.
5. The principal regulator to which the University is accountable is the Scottish Funding Council. SFC has a regulatory duty to ensure that Universities in receipt of public funds provide value for money and are responsible in their use of these funds. The main requirements are set out in the SFC Financial Memorandum. The University will ensure that its Treasury Management Policy is consistent with the Memorandum.
6. Details of the legislative and regulatory framework within which the University operates and copies of its constitutive documents will be provided to potential and/or existing counterparties, where these may be reasonably requested for the purposes of entering into treasury management arrangements with this organisation.
7. Prior to entering into any agreement with a counterparty, all reasonable steps will be taken to verify the powers of that counterparty to enter into such agreements, and such evidence as may be required to do this will be sought from the counterparty.
8. A number of elements of the finances of the University are affected directly and indirectly by the policies and decisions of UK and Scottish governments. These include student fee income and research income. Such risks will be taken into account, as far as this is possible, in determining treasury management policy and risk management strategy.

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## SCHEDULE 1 - CREDIT AND COUNTERPARTY LISTS

1. The Director of Finance is responsible for monitoring the creditworthiness of approved deposit takers using appropriate external sources of information including credit agency reports and limiting exposure below the approved limits where appropriate. Individual limits can only be exceeded with the prior consent of the Finance & Property Committee. Where he/she has reason to believe that a counterparty's credit standing is or may become impaired, he/she should apply lower limits than set out in these Schedules or cease to use them.
2. The Director of Finance is authorised to deposit surplus Sterling funds of the university with, and purchase certificates of deposit issued by, any of the organisations listed below, to ensure that the primary objectives of safeguarding the university's assets and limiting its risk are balanced with the achievement of a satisfactory return.

| <b>Counterparty</b>    | <b>Deposit limit (excluding interest)</b> | <b>Fitch Rating at 31 October 2016</b> | <b>Moody's rating at 31 October 2016</b> | <b>S&amp;P short term issue rating at 31 October 2016</b> |
|------------------------|---|--|--|---|
| RBS – (main bankers)   | £10m                                      | F2                                     | P-2                                      | A-2   |
| LBG – Bank of Scotland | £10m                                      | F1                                     | P-1                                      | A-1   |
| Barclays               | £10m                                      | F1                                     | P-1                                      | A-2   |
| Nationwide BS          | £10m                                      | F1                                     | P-1                                      | A-1   |
| Handelsbank            | £10m                                      | F1+                                    | P-1                                      | A-1+  |
| HSBC                   | £10m                                      | F1+                                    | P-1                                      | A-1+  |
| ING                    | £10m                                      | F1+                                    | P-1                                      | A-1+  |
| Santander UK           | £10m                                      | F1                                     | P-1                                      | A-1   |
| Investec Bank          | £10m                                      | F1+                                    | P1                                       | A-1   |

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3. In addition to the above limits, the University will maintain its deposits in a diverse number of counterparties with a maximum single counterparty limit of 20% of the Sterling cash balances of the University measured only at the time of investing each cash deposit, and with the exception of Royal Bank of Scotland Group which may be a higher % but the amount cannot exceed the limit above.
4. The minimum acceptable ratings shall apply only to UK regulated institutions and shall be:

|                   | Long term (greater than 365 days) | Short term |
|-------------------|-----------------------------------|------------|
| Fitch             | BBB+                              | F2         |
| Moody's           | Baa1                              | P2         |
| Standard & Poor's | BBB+                              | A2         |

5. If any of the above counterparties are placed on negative watch or equivalent, or if there is a material and sustained change in Credit Default Swap pricing (5 year), then the Director of Finance will consult with the Chair of Finance & Property Committee as to proposed action.
6. If the Director of Finance considers that a term deposit needs to be recalled before its maturity, he/she has the express power to enact such a transaction, but only in the event of recognised market stress. Any such action taken must be reported to the next Finance & Property Committee meeting.
7. In addition to Sterling balances, the University may hold current assets denominated in foreign currency, but only to the extent that they are committed (both on or off the balance sheet) to be expended in the same currency (i.e. matched), as set out in the Exchange Rate Exposure section. The maximum level of these funds to be held with any one institution is limited to 5 million Euros or equivalent and the funds may only be held with a UK Bank that meets the criteria for inclusion on the approved credit rating list.
8. Where the University has placed funds on fixed term deposit and circumstances change such that there is a rating agency downgrade or the University receives advice regarding the counterparty, no further deposits will be made with that counterparty. Existing deposits will be allowed to mature unless the change indicates a fundamental deterioration in the institution's position to the extent that the security of the deposit is considered at risk, when the Director of Finance will seek the early return of the deposit and will attempt to minimise the breakage costs of the early return.
9. The limits set out above may be amended only by the Finance & Property Committee.

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## SCHEDULE 2 - LIQUIDITY

1. The Director of Finance will ensure that the University has sufficient funds in all circumstances to meet its liabilities as and when they fall due and with a sufficient margin to meet unexpected expenditure that may arise from time to time.
2. The Director of Finance will ensure that available liquidity must not, at any time, fall below the equivalent of two months' total payroll costs where available liquidity comprises:
  - a. cash balances on deposit
  - b. cash balances with a maturity/notice period of between one day and one months
  - c. cash balances with a maturity/notice period of between one and three months
3. The University will be required to keep within its approved overdraft limits and respect banking covenants at all times.
4. Cash deposits will be organised with approved counterparties with a maturity profile or ladder of up to 12 months to achieve an appropriate phasing of maturities which both matches cash flow forecasting and allows the University to take advantage or potential increases in interest rates in the future
5. Deposits and other investments of over 6 months will be split between at least two counterparties.
6. A nominal overnight balance will be maintained in the primary current accounts.

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## SCHEDULE 3 - EXCHANGE RATE EXPOSURE

1. The University seeks to ensure that it is not exposed to significant exchange rate fluctuations by matching its foreign exchange transactions. The effect of this is that current assets denominated in foreign currency are only held to the extent that they are committed (either on or off the balance sheet) to be expended in the same currency (that is, matched).
2. In those cases where it is not possible to match such foreign currency assets in terms of value and maturity dates, the Director of Finance should ensure that the total (un-netted) value of all such unmatched foreign currency assets and liabilities (including off-balance sheet commitments) at any time does not exceed the sterling equivalent of £5 million. The Director of Finance should limit this unmatched exposure by utilising appropriate hedging instruments. Foreign currency dealings should be entered into only for the transaction of normal university business, and under no circumstances is it permissible for foreign currency transactions to be used on a speculative basis.
3. The Director of Finance is authorised to buy and sell currencies with any of the organisations listed in Schedule 1 on credit and counterparties.



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## SCHEDULE 4 - RESPONSIBILITIES IN RELATION TO TREASURY MANAGEMENT

### University Court

- Approve and amend borrowing framework
- Approve assets offered as security for loans

### Finance & Property Committee

- Approve and amend treasury management policy statement
- Approve new organisations with whom the University engages to hold cash and investments
- Approve key policies, procedures and delegation of authority
- Approve and accept all loan and funding agreements
- Approve short term overdraft facilities
- Approve the terms of new bank loan facilities and/or bond issuance
- Approve or amend the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Approve changes to minimum credit ratings for counterparties
- Approve the criteria for the selection of external service providers and agreeing terms of appointment
- Receive and review at least annually the documentation set out in TMP 6

### Director of Finance

- Recommend clauses, treasury management policy/practices for approval, review the same regularly, and monitor compliance
- Invest cash as set out in this statement
- Approve the opening of new bank accounts
- Implement the annual treasury strategy
- Receive and review management information reports
- Submit treasury management reports to Finance & Property Committee
- Reviewing the performance of the treasury management function and promoting best value reviews
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Negotiate the terms of new bank loan facilities and/or bond issuance
- Recommend the appointment of external service providers.

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## Finance team

- Execute transactions
- Maintain treasury management records
- Adhere to agreed policies and practices on a day-to-day basis
- Maintain relationships with third parties and external service providers
- Monitor performance on a day-to-day basis
- Submit management information reports to the Director of Finance
- Identify and recommend opportunities for improved practices.