# UNIVERSITY OF STIRLING
# TREASURY MANAGEMENT POLICY

## Treasury Management Clauses

The University has adopted as part of the University Financial Regulations the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services.

The Code provides a basis to create clear Treasury Management objectives and to structure sound management policies and practices.

The University adopts the following four clauses of the CIPFA code and the Treasury Management Policy Statement in appendix 2.

Clause 1

The University will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities

- Suitable treasury management practices (TMPs), setting out the manner in which the University will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

Clause 2

The University Court will receive reports on its treasury management policies, practices and activities including as a minimum an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in the TMPs.

Clause 3

The University Court delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Joint Planning, Policy and Resources Committee (JPPRC), and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the University's policy statement and TMPs.

Clause 4

The University nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

**UNIVERSITY OF STIRLING** **Appendix 2**
**TREASURY MANAGEMENT POLICY**

## Treasury Management Policy Statement

The Treasury Management Policy Statement defines the policies and objectives of the University's Treasury Management activities.

The University defines treasury management activities as:

*The management of the University and Subsidiary company 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*.

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, and any financial instruments entered into to manage these risks.

The University acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

The University acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. The University Investment policy objectives are therefore:

1. To ensure the <u>security</u> of University funds and so minimise the risk of capital loss.
2. To maintain adequate <u>liquidity</u> by ensuring that it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it, at all times, to have the level of funds available to it which are necessary for the achievement of its business objectives and to meet working capital needs as they arise.
3. To keep surplus cash appropriately invested so as to achieve a satisfactory <u>yield</u> while managing the risk.

The University's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing will allow the university transparency and control over its debt.

The University Treasury Management Policy applies in full to any third party agents engaged by the University on treasury management.

**UNIVERSITY OF STIRLING** **Appendix 3**
**TREASURY MANAGEMENT POLICY**

## Treasury Management Practices

The Treasury Management Practices, which are drawn from the CIPFA Code define the manner in which the University will seek to achieve the policies and objectives outlined in the treasury management policy statement. The TMPs prescribe how the University will manage and control its activities.

**TMP1: Risk Management**

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the institution's objectives in this respect, all in accordance with the procedures set out in *Reporting requirements and management information arrangements.*

In respect of each of the following risks, the operational arrangements which seek to ensure compliance with these objectives are set out in Schedule A to this document.

1. Liquidity risk management

Liquidity risk is defined as the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the institution's business objectives may therefore be compromised.

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| Action:<br>The University will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it all times to have the level of funds available to it which are necessary for the achievement of its business objectives.<br><br>The University will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. |

2. Interest rate risk management

Interest rate risk is defined as the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately.

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| Action:<br>The University will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues while maintaining the security of the invested funds<br>The University will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and |

certainty of costs and revenues but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes to the level or structure of interest rates.

The University will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

3. Exchange rate risk management

Exchange rate risk is defined as the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately**.**

Action:
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 the best rate achievable, but always retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level of exchange rates.

The University will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes to the level or structure of exchange rates.

The University will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

4. Credit and Counterparty risk management

Credit and counterparty risk is identified as the risk of failure by a third party to meet its contractual obligations to the University under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the University's capital or revenue resources.

Action:
The University regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the University will ensure that its counterparty lists and limits (detailed in Schedule A) are prudent in attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in *Approved Instruments, methods and techniques* and listed in Schedule C to this document. The University recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of

those organisations from which it may borrow, or with whom it may enter into financing or derivative arrangements.

5. Refinancing Risk

Refinancing risk is defined as the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the University for those refinancings, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

Action:
The University will ensure that its borrowings, 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 manage its relationship with its counterparts to secure this objective and will avoid over-reliance on any one source of funding.

6. Legal and Regulatory Risk Management

Legal and regulatory risk is defined as the risk that the University itself, or a third party which it is dealing with, fails to act in accordance with its legal powers or regulatory requirements, and that the University suffers losses accordingly.

Action:
The University will ensure that all of its treasury management activities comply with its statutory powers and other regulatory requirements. The University recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the University.

7. Fraud, error and corruption and contingency management

This is defined as the risk that the University fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.

Action:
The University will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, the University will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends. Insurance cover will be taken out and the responsible officials included within it.

8. Market risk management

Market risk is defined as the risk that, through adverse market fluctuations in the value of the principal sums the University invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself.

| Action:<br>The University will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations. |
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## TMP2:  Performance Measurement

The University is committed to the pursuit of value for money in its treasury management activities and to the use of performance measurement in support of that aim.

Accordingly, the treasury management function will regularly examine alternative methods of service delivery, and of the scope for other potential improvements. The performance of the treasury management function will be measured using appropriate benchmarks. The performance of the treasury management function (including the Fund Managers) will be measured using criteria set out in Schedule B.

## TMP3:  Decision making and analysis

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.

## TMP4:  Approved instruments, methods and techniques

The University will undertake its treasury management activities by employing only those instruments, methods and techniques as detailed in Schedule C and within the limits approved by the University.

Where the University intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual strategy. The University will seek proper advice and will consider that advice when entering into arrangements to use such products and to ensure that it fully understands those products.

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

For 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 that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. These are detailed in Schedule D to this document.

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 delegation to the Director of Finance in respect of Treasury management is set out in the University's Financial Regulations.

**TMP6: Reporting requirements and management information arrangements**

The University will ensure that regular reports are prepared and considered on the implementation of its treasury management polices; on the effects of decisions taken and transactions executed in pursuit of those policies.

As a minimum, the Joint Policy, Planning and Resources Committee (JPPRC) will receive:

- A report on the strategy to be pursued in the coming year in support of the agreed budget and capital development programme

- An annual report on the performance of the treasury management function, including the reasons for and the effects of any changes to the strategy at the beginning of the year.

- An annual report on the performance of any external service providers.

The present arrangements and form of these reports are detailed in Schedule E to this policy.

**TMP7 Budgeting, accounting and audit arrangements**

The Director of Finance will prepare and the University will approve and, if necessary, from time to time will amend, an annual budget, which will include income, and costs associated with treasury management activities. The matters to be included in the budget will at minimum be those required by statute or regulation.

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 in force for the time being.

The University will ensure that its auditors, both external and internal and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices.

**TMP8: Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University and it subsidiaries will be under the control 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 Treasury Management Practice 1.1 *Liquidity risk management.*

**TMP9: Money Laundering**

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, reporting suspicious activity and ensuring that staff involved in this are properly trained.

**TMP10: Staff training and qualifications**

The University recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake their duties and responsibilities. The University 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 take responsibility for the necessary arrangements.

**TMP 11: Use of External Service Providers**

The University recognises 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 such external providers are assessed and properly agreed and documented and subjected to regular review. Where services are subject to a formal tender or re-tender arrangements, legislative requirements will always be observed.

Where external service providers are appointed with the responsibility for day-to-day treasury matters the University will retain full responsibility for the safeguarding of funds and setting the treasury strategy

**TMP12: Corporate Governance**

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.

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

**UNIVERSITY OF STIRLING**
**TREASURY MANAGEMENT POLICY**

**Schedules to Treasury Management Practices**

## A: Risk Management

The University will undertake to carry out risk assessments and ensure the following controls are in place to manage treasury risk:

### Liquidity Risk Management

An effective cash and cash flow forecasting and monitoring system which will identify the extent to which the University is exposed to the effects of potential cash flow variations and shortfall.

The University will maintain cash facilities up to two months core operating and payroll costs, to allow for unforeseen liquidity requirements. For 2010/11 this equated to around £15m. The University will manage its' short term investments and borrowing facilities accordingly. To this extent the Director of Finance is authorised to arrange short-term overdraft facilities with the University's bankers.

### Interest Rate and Exchange Rate Risk Management

Reliable and informed sources of information and advice on the likely future courses of interest rates and exchange rates to enable it to assess the extent to which movements in each of these may impact on the University, and to permit the effective management and control of its exposures to the same.

### Credit and Counterparty Lists

The Director of Finance is responsible for monitoring closely the credit standing of approved counterparties.

An acceptable instrument will for each relevant period meet the following ratings.

| Duration | S&P rating | Moodys rating | Fitch rating |
|---|---|---|---|
| Up to 3 months | A-2 | P-2 | F2 |
| 3 months to 12 months | A-1 | P-1 | F-1 |
| Greater than 12 months | AA- | AA3 | AA- |

Acceptable counterparties for directly placed investments are normally limited to UK Clearing Banks and Building Societies. To avoid doubt a UK Clearing Bank or Building Society is defined as having an established place of business in the UK and be regulated by the Financial Services Authority (FSA). This does not preclude, therefore, use of counterparties where the ownership is wholly or partly outside the UK.

Non-UK investment decisions are outsourced to Royal London Cash Management as the University's appointed fund manager. However they may only invest funds with countries that have Sovereign Credit Ratings from Standard and Poor of at least AA (or equivalent under Moody's or Fitch)

Even if lending criteria are met, the reputational risk of using certain counterparties should be considered. Recent credit downgrades, "rating watch" notices and market sentiment, as far as reasonably possible, should be taken into account. The University may choose to suspend its benchmarking targets where pursuing these targets may result in undue risk. At any point, the Director of Finance can lower either the financial limits for lending (see below), or stipulate more stringent credit worthiness.

*Financial limits*
No more than 10% of balance sheet value, which is defined as net assets including pension liability, may be deposited with any single counterparty.

**Refinancing Risk Management**

Reliable records and forecast of the terms and the maturities of its borrowings, capital, project and partnership funding to allow it to plan the timing of and successfully negotiate appropriate terms for it's refinancing.

If the University intends to raise capital for new projects and/or intends to refinance the whole or part of the existing debt portfolio, the Director of Finance will have regard to:

- The level of security required for the project
- The maximum level of assets that could be provided as security without adversely effecting the stability of the University
- The value of assets already pledged as security on any existing facilities
- Requirements of the financial memorandum with the funding council
- Any statutory restrictions and the University's own ordinances
- Restrictions on the University's use of its property assets required by loan documentation/and other covenants
- The costs involved in the negotiation and execution of the new agreements
- The level and nature of interest rates charged and structure in the current market place

**Legal and Regulatory Risk Management**

Comprehensive documentation of the University's legal powers and regulatory requirements, and of its counter parties, to allow it to assess the potential for illegal or irregular dealings in its treasury management activities

**Fraud, Error and Corruption, and Contingency management**

Full analysis and records of the processes pursued in making treasury management decision, and in executing transactions, to enable the University to create a successful audit trail, and to allow it to assess the need for contingency arrangements.

**Market Risk Management**

Comprehensive records of the University's contractual responsibilities and liabilities under treasury management contracts with third parties, to enable it to fulfil its obligations there under.

**UNIVERSITY OF STIRLING**
**TREASURY MANAGEMENT POLICY**

**Schedules to Treasury Management Practices**

## <u>B: Performance Management</u>

### 1. Frequency and Process for Tendering

The following services will be subject to tender every 3 to 5 years. The tender process will be that normally followed by the University, contained within the Procurement Policy

- Banking services
- Fund management services
- Financial adviser
- Cash management, money broking services and general finance advice

### 2. Performance measurement

The University's cash balances can be distinguished between operational, core and strategic cash.

- Operational Cash is required in the immediate term (within 3 months)
- Core cash is required in the short term (within 3 to 12 months)
- Strategic Cash is not required in the short term (twelve months plus)

It is recommended that the operational cash balance is held at £15m

It is recognised that returns on operational cash surpluses cannot be measured in the same way as returns on core and strategic investment cash. Therefore approved performance measures are as follows:

Operational cash - overnight LIBID[1]

Core cash - 3 month LIBID

Strategic cash – 12 month LIBID

It is recognised that actual rate achieved may not consistently attain LIBID, due to four reasons

- Margins charged by counterparties
- LIBID itself is calculated using a notional principal and the University may be investing funds lower than this amount
- Minimum counterparty credit ratings restricting the University to certain borrowers
- The University restricts the amount that may be placed with any one counterparty

[1] LIBID is the London Interbank Bid Rate which is the average interest rate banks wishing to borrow are prepared to pay. Whereas LIBOR, the London Interbank Offered Rate is the average interest rate which banks are willing to lend to each other.

**UNIVERSITY OF STIRLING**
**TREASURY MANAGEMENT POLICY**

**Schedules to Treasury Management Practices**

## C: Approved Instruments, Methods and Techniques

## INVESTMENT AND DEPOSIT OF SURPLUS FUNDS

### Approved Sources of Finance

- UK, European and rest of world banks
- UK building Societies

### Approved Methods of Borrowing/Raising of Finance

a) Legal Form
- Mortgages secured on property collateral
- Term Loans (secured or unsecured)
- Finance Leases (building and equipment)
- Equity (Ordinary and preference shares)
- Gifts, Grants & Donations
- Authorised overdraft

b) Nature
- Variable linked to base rate
- Variable linked to LIBOR
- Fixed by way of initial fixed rate
- Fixed by use of derivative
- Index linked
- Deferred Interest

### Approved Investment Instruments

- Ordinary Current Accounts
- Term Bank deposits
- Certificates of deposit
- Treasury Bills
- Segregated Cash Managers
- Money Funds
- British Government Securities
- Corporate Debt
- Investment Funds

**UNIVERSITY OF STIRLING**
**TREASURY MANAGEMENT POLICY**

**Schedules to Treasury Management Practices**

## D: Organisation, Segregation of Responsibilities and Dealing Arrangements

| Delegated Power | Exercised By |
|---|---|
| Approval of treasury management policy | JPPRC |
| Approval of counterparty list | JPPRC |
| Approval of instruments, methods, techniques | JPPRC |
| Approval of annual strategy | JPPRC |
| Approval of treasury systems document | Director of Finance |
| Application of approved strategy | Director of Finance |
| Authorisation of investment instructions | Director of Finance |
| Redemption of funds to a University account | Director of Finance |
| Authorisation of cash transfers (external) | Cheque Signatories (in accordance with mandate |
| Raising of capital finance | JPPRC |
| Banking and dealing mandates | Director of Finance |
| Authorisation of terms of reference of third party agents | Director of Finance |
| Approval to open and close bank accounts | Director of Finance |

The Director of Finance and designated members of staff, as indicated, are authorised, subject to the provision of the policy statement to:

- Deposit surplus funds with, any of the organisations listed in the counterparty listing and approved fund managers to a maximum limit or sub limit specified for each individual organisation.
- Borrow funds subject to the strategy agreed by JPPRC.
- Operate foreign bank accounts to the extent that they are necessary to facilitate the operational activities of the University.

The Treasury Manager will maintain systems documentation relating to the treasury function, detailing the procedures in place to ensure delivery of the approved policy. These will be reviewed in full on an annual basis, and revised where appropriate.

**UNIVERSITY OF STIRLING**
**TREASURY MANAGEMENT POLICY**

**Schedules to Treasury Management Practices**

## E: Reporting and Management Information Arrangements

The JPPRC meets at least three times a year. At the autumn meeting the Committee will be presented with an Annual Strategy Report relating to the year ahead together with an Annual report on the performance of the treasury function in the year just ended.

**Annual Strategy**

- Review of the University's approved clauses, treasury management policy statement and procedures and amendments for approval
- Strategy report on the proposed treasury management activities for the year ahead.
- In preparing the strategy the Director of Finance and designated staff will have regard to:
  a) The maintenance of the stable financial position of the University
  b) The current levels of interest rates and forecast for future changes in interest rates
  c) The policies contained in other planning documents with in the university e.g. Capital programme
  d) The aggregate of all funds, loans and accounts operated by the University

**Annual Report**

- Commentary on treasury operations for the year to include details of transactions entered into and their revenue effect
- Performance report
- Compliance report on agreed policies and practices

**Periodic reports**

- 12 month cashflow forecast together with commentary on variances arising in previous periods and revisions to forecast
- A monthly investment report including an analysis of currently outstanding loans, deposits and investments by instrument, counterparty, maturity, interest rate and interest rollover period.
- Commentary on treasury operations and performance for the period
- Proposals for approval
- Revisions to the 12 month cash flow forecast and to estimates of future interest rates; effect on annual financial strategy and on revenue budget
- Proposed amendments to approved counterparties and to limits
- Incidents where the approved treasury management policy has been breached. These would also be reported immediately.

**UNIVERSITY OF STIRLING**
**TREASURY MANAGEMENT POLICY**

**Schedules to Treasury Management Practices**

## F: Cash and Cash Flow Management

The University will prepare cash flow forecasts and actuals for the current financial year so as to be able to determine:

- Whether minimum acceptable levels of cash balances plus short term investments might be (or have been) breached
- The adequacy (or otherwise) of standby/overdraft facilities or contingency arrangements
- The optimum arrangements to be made for investing and managing surplus cash

Liquidity will be maintained to allow the University to meet its financial obligations, with only cash surplus to working capital requirements being invested. The investment portfolio will be balanced by spreading surplus cash across approved counterparties and over varying time scales.