

UNIVERSITY OF EDINBURGH

TREASURY MANAGEMENT POLICY

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UNIVERSITY OF EDINBURGH

TREASURY MANAGEMENT POLICY

1 This document sets out the institution's policy, as agreed by the Court, on raising capital finance and investing cash. It also deals with internal movements of funds between accounts established by the institution. The policy statement follows the guidance outlined in *Treasury Management in the Public Services- Code of Practice and Cross-Sectoral Guidance Notes* published by CIPFA in 2011. This document has been adopted by the institution as part of its financial regulations and covers the institution and all its subsidiary undertakings, with specific Memoranda of Understanding where particular terms apply. This document is made available to both internal and external audit for information purposes.

2 **Approved activities**

Treasury management comprises the management of all cash, money market investments and capital market transactions in connection with the cash and funding resources of the institution and the control of associated risks.

All treasury management activities involve risk and potential reward. The policy of the institution on borrowing is to minimise cost while maintaining the stability of the institution's financial position by sound debt management techniques. The objective for deposit activities is to achieve the best possible return while minimising risk. The overriding principle for deposits is to avoid risk rather than to maximise return.

There is a separate policy for managing endowment and cash funds that are under the remit of the Investment Committee (<https://www.ed.ac.uk/finance/about/sections/financial-information-reporting-strategy-team/investments-and-endowments/investment-committee>).

3 **Authorisation to borrow and invest funds**

3.1 *Authorisation*

The Director of Finance (DoF) and the designated members of staff, indicated in Appendix 1, are authorised by the Policy and Resources Committee (PRC), on behalf of the Court, to:

- a) **Borrowing**
borrow funds subject to the strategy agreed by PRC;
- b) **Investment**
under overall guidance from the Investment Committee, deposit surplus funds of the institution with, and purchase certificates of deposit issued by any of the organisations listed in Appendix 1 of this statement up to a maximum limit specified for each individual organisation.

3.2 *Investment Committee*

The Investment Committee makes investment decisions and reports to Court through the PRC. The remit of the Committee is to consider the corporate governance and other related implications of the University's investments, in particular to consider strategic formulation and risk containment and to review and monitor both long and short-term investments. Information relating to the Investment Committee can be found at the following link:

<https://www.ed.ac.uk/finance/about/sections/financial-information-reporting-strategy-team/investments-and-endowments/investment-committee>

4 **Formulation of treasury management strategy**

4.1 *Annual financial strategy*

The institution's strategy for the application of its treasury policy is the annual financial strategy prepared by the DoF and approved by the Court through PRC.

4.2 *Annual forecast and strategy for investment and borrowing*

The DoF will prepare for the approval of PRC:

- a) A quarterly rolling cash flow forecast of surplus funds and loan repayment requirements; and
- b) a strategy for funding the institution's capital finance proposals and lending surplus cash for the period covered by the forecast.

4.3 *Deliberations in preparation of strategy*

In preparing the strategy the DoF will have regard to:

- a) Maintaining the financial sustainability of the University. The DoF will ensure that the University has appropriate facilities available to meet its capital and interest repayments, for funding needs arising from uncertainties inherent in the planning process and from the timing and amount of cash flows;
- b) the current level of interest rates and forecasts of changes in interest rates. The DoF will prepare a recommendation for approval by PRC of any new proposals to raise capital finance and the impact of forecast interest rates on these proposals. In addition the DoF will indicate the maximum proportion of interest on borrowing which is subject to variable rates of interest;
- c) policies contained in other planning documents within the institution, including:
 - i) the strategic plan;
 - ii) the three year plan and 10 year forecast;
 - iii) the Finance Strategy
 - iv) the estates strategy, and capital expenditure programme;
 - v) working capital management, including debt collection policy and policy on creditor payments, including payroll; and
- d) the aggregate of all funds, loan and accounts operated by the institution. Internal loans are deemed to earn interest on outstanding balances on a daily basis at a rate fixed by the DoF.

4.4 *Monthly rolling forecasts and report to PRC*

Based on the annual forecast, the DoF will prepare monthly rolling cash forecasts for the purpose of applying the strategy on a day to day basis. The results of applying the strategy will be reported regularly to PRC. Where applicable during the course of the year the Director of Finance will recommend amendments to the strategy to PRC.

4.5 *Credit risk, interest rates and maintenance of funds*

The DoF has the authority (as indicated in 3.) to carry out the institution's strategy for cash deposits and managing the University's cash flow. In exercising these powers the DoF will have regard to the perceived credit risk associated with the approved organisations with which funds may be deposited or invested. Also the effect of possible changes in interest rates on the cost of borrowing and the return from investing and the need to maintain adequate liquid funds to meet the institution's obligations.

Examples of the matters to be included in the Annual Financial Strategy are at Appendix 2

5 *Approved methods of raising capital finance*

The DoF, in conjunction with the governing body, will undertake on its behalf the borrowing activities of the institution. The DoF cannot commit the institution to any borrowing for capital purposes without obtaining the specific authority of PRC, unless specified in the University's Delegated Authority Schedule (DAS).

<http://www.docs.sasg.ed.ac.uk/GaSP/Governance/Governance/DelegatedAuthorisationSchedule.pdf>

Proposals to take on additional debt or to redeem existing debt will be submitted to PRC for approval.

6 Approved sources of finance

In raising capital finance the DoF is authorised to apply to borrow using any of the sources and methods set out below. No other instrument may be applied for without prior agreement from PRC.

<i>Source</i>	<i>Method of Finance</i>
University's Bankers	overdraft facility; short, medium and long term loans either at fixed or variable interest rates
S & P/IBCA rated counterparties (ratings of AA (or higher) or fix)	short, medium and long term loans either at fixed or variable interest rates.
AAA rated counterparties	bond issues

The sources listed have been approved by PRC and take account of:

- a) the institution's powers and rules;
- b) statutory restrictions;
- c) the requirements of the Financial Memorandum with the funding council;
- d) terms and covenants of borrowing; and
- e) impact of new borrowing on the University's financial sustainability.

The DoF will have regard to:

1. the level of security for the project
2. the value of assets already held as security on existing capital projects
3. requirements of the financial memorandum with the funding council
4. statutory restrictions and the institution's own powers and rules
5. restrictions on the institution's use of its property assets required by covenants, and
6. the maximum level of assets that should be provided as security without risking the overall stability of the institution.

7 Investing and depositing of cash

- a) The overriding principle guiding University cash investment is the preservation of capital value. The DoF has delegated authority to invest the cash managed by the University in accordance with the annual financial strategy and in accordance with the terms of this statement. The DoF is authorised to deposit or invest funds only with the organisations and subject to the limits set out in Appendix 2 of this statement and approved annually by the Investment Committee.
- b) The DoF 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 be exceeded only with the prior consent of the Investment Committee ratified by the PRC.

8 Interest rate exposure

- a) The DoF is responsible for monitoring the institution's interest rate exposure and for determining the interest rate exposure strategy within the limits set by this statement and by the annual financial strategy.
- b) The principal factor governing the exposure of surplus funds to interest rate movements is the institution's cash flow forecast. Where surplus funds are required to meet possible cash outflows in the near future they will necessarily be deposited short term for periods which will ensure that funds are available should they be required. For investment for longer periods the annual financial strategy will give guidance on interest rate exposure policy.

Matters to consider in establishing interest rate exposure policy

1. The current level and structure of interest rates.
2. Current interest rates compared with the historical trend.
3. Estimates of future movements in the level and structure of interest rates.
4. The extent to which estimated future movements in interest rates would affect the revenue account and the effect of estimated future movements in interest rates on the revenue account if all loans were to be converted to floating rates.
5. The sensitivity of the revenue account to fluctuations in future interest rates compared with estimate.

9 Legal issues

Prior to entering into any borrowing or investment transaction it is the responsibility of the DoF to be satisfied by reference (if necessary) to the institution's legal advisors that the proposed transaction does not breach any statute, the institution's financial regulations or standing orders, the requirements of the Financial Memorandum with the funding council or any terms and covenants concerning borrowing.

10 Delegation

The institution has drawn up and approved a scheme of delegation for the operation of the treasury policy, a summary of which is set out in Appendix 5.

11 Review and reporting

The DoF reports quarterly to the Investment Committee, which in turn reports to the PRC. An indication of matters to be included in the reports is set out in Appendix 6 to this statement. Other matters are drawn to the attention of PRC as appropriate.

SCHEME OF DELEGATION FOR TREASURY POLICY

Delegated power	Exercised by
Approval and amendment of treasury management policy statement	Policy and Resources Committee
Amendment of list of approved organisations and limits	Policy and Resources Committee
Approval of annual financial strategy	Policy and Resources Committee
Approval of treasury systems document	Policy and Resources Committee
Application of approved strategy	Director of Finance
Treasury dealing with counterparties	Director of Finance/Deputy Director/ Director Specialist Services
Authorisation of cash transfers	Director of Finance/Deputy Director/Director Specialist Services
Borrowing and lending documentation	Policy and Resources Committee/Director of Finance

DEPOSIT AND INVESTMENT LIMITS

COUNTERPARTIES

Using Fitch ratings, banking counterparties must meet the following criteria:

Long term rating	AA-;
Short term rating	F1+; and
Individual rating	B or above

Exceptionally, Investment Committee has agreed that the four main UK banks (Barclays, Lloyds Banking Group (LBG), Royal Bank of Scotland Group (RBS) and HSBC) can be included as counterparties should they fail to meet the above criteria. In addition the Committee agreed that the following Institutions could be included as counterparties: Clydesdale Bank, Bank of America, BNP Paribas, Credit Suisse, Deutsche Bank, Santander UK, Societe Generale, Ulster bank, and Goldman Sachs. Building Societies rated by Fitch as A+ or better are also considered acceptable counterparties.

At its meeting on 8 October 2010 the Investment Committee agreed that the range of investment options could be widened to include money funds and segmented funds.

Limits of deposits are as follows:

Institution type	Rating limit	Deposit limit	Investment period
Bank/banking group	AA- or greater	20% of total deposits	up to 24 months
Building societies	A+ or greater	£2m - £10m	up to 24 months
Social Investment Funds		£5m	up to 10 years

Counterparty deposit limits have been suspended for systemic UK banks which are government backed.

Ratings explained

AA: Very high credit quality. ‘AA’ ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

The modifiers “+” or “-“ may be appended to a rating to denote relative status within major rating categories.

F1: Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong feature.

Individual Ratings

A: A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.

B: A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

N/R: means Not Rated

WD: means Withdrawn

Investment Limits

The limits set out above may be amended only with the approval of the Investment Committee and ratified by PRC on behalf of Court.

The Director of Finance is responsible for closely monitoring the credit standing of approved counterparties. Where he has reason to believe that a counterparty’s credit standing is or may become impaired he should apply lower limits than set out above or not use them because they would no longer meet the criteria for inclusion above. Between meetings of the Investment Committee he should advise the Committee by correspondence and ask for approval by return and advise the PRC at its next meeting.

Social Investment

In line with the limits outlined in the Delegated Authority Schedule the Director of Finance may approve investments aligned to Social Impact and financial objectives, either directly or through managed funds, in accordance with direction provided by University Court.

ANNUAL FINANCIAL STRATEGY**1. Forecast cash flows**

- a) Forecast monthly cash flows for the next financial year and annual forecast for the next 10 financial years.

2. Maturity ladder of existing loans.**3. Interest rates**

- a) Analysis of present levels of short and long term interest rates, comparison with historical trends and estimated trend movements in interest rates over the next financial year.

4. Proposals to be submitted to PRC for information and approval, included in Finance update from Investment Committee:

- a) total outstanding borrowing
- b) maximum proportion of interest payable on variable rate borrowing.

5. Strategy for financing new loan requirements over the next 10 years (if required):

- a) proposed sources of finance
- b) proposed maturity structure
- c) whether fixed or floating rate (etc) and if floating rate proposed rollover periods
- d) suggested mechanisms for controlling interest rate exposure
- e) estimated rates of interest
- f) effect of proposed loans on the institution's overall security position
- g) proposed new maturity ladder
- h) estimated effect on revenue budget of financing strategy
- i) expected maximum total outstanding and expected maximum proportion of interest payable on variable rate borrowing.

6. Cash Management:

- a) the proposed strategy (type of instrument and maturity period) for each of:
 - i) cash earmarked for working capital or to repay loans;
 - ii) cash to be held available to meet contingencies;
 - iii) cash not held against an anticipated requirement.
- b) The performance metrics used to monitor liquidity, solvency and resilience and the control ranges.

7. Authority levels and changes to the organisations and limits set out in appendix 2 of the treasury management policy.**8. Proposals for amendments to the treasury management policy**

- Proposals for amendments to the treasury management policy.

MATTERS TO BE INCLUDED IN REPORTS TO THE POLICY AND RESOURCES COMMITTEE

1. Annual report

- a) Commentary on treasury operations for the year.
- b) Cash flow compared with budget and commentary on variances.
- c) Annual financial strategy.
- d) Proposed amendments to the treasury management policy statement.
- e) Policy compliance breaches.

2. Quarterly reports

- a) Analysis of outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover period.
- b) Commentary on treasury operations for the period.
- c) Cash flow compared with budget and commentary on variances.
- d) Commentary on continued applicability of annual financial strategy and proposals for amendments if required.
- e) Revisions cash flow forecasts and to estimates of future interest rates; effect on annual financial strategy and on revenue budget.
- f) Proposed amendments to list of approved counterparties and to limits.
- g) Proposed amendments to treasury systems document.
- h) Policy compliance breaches.

DEFINITION OF TREASURY MANAGEMENT PRACTICES

1. **Liquidity risk** - the risk that cash will not be available when needed;
2. **Interest rate risk** - that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on an organisation's finances against which it has failed to protect itself adequately;
3. **Exchange rate risk** - the risk that fluctuations in foreign exchange rates also create an unexpected or unbudgeted burden on an organisation's finances;
4. **Inflation risk** - i.e. any unexpected or unbudgeted impact caused by levels of inflation;
5. **Credit and counter-party risk** - the risk of failure of a third party to meet its contractual obligations under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness;
6. **Refinancing risk** - the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those re-financings, both capital and revenue;
7. **Legal and regulatory risk** - the risk that the organisation fails to act in accordance with its powers or regulatory requirements;
8. **Fraud, error, corruption and contingency management** - the failure to employ suitable systems and procedures and to maintain effective contingency management arrangements to these ends;
9. **Market risk** - the risk that through adverse market fluctuations in the value of the principal sums an organisation invests, its stated policies and objectives are compromised