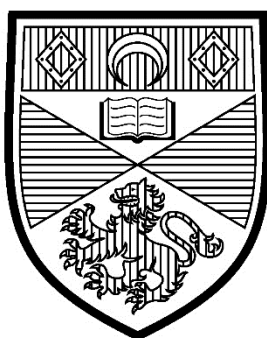


Treasury Management

Financial Operating Procedure



University of
St Andrews

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Treasury Management Policy Statement

The University defines its treasury management activities as;

“The management of the University’s (including subsidiaries where material) 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.

The University’s risk appetite, defined as its “willingness to accept risk in the pursuit of its objectives” has been assessed as “low” for Treasury Management. That is, the University is not willing to accept risks in most circumstances beyond a remote likelihood of reputation damage, financial loss or exposure or significant incident(s) of regulatory non-compliance. It should be recognised therefore that the core purpose of the Treasury Management Policy is to protect the Capital Value of the University’s cash resources rather than having a focus on maximising the earnings capability of those resources.

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 adopts the key recommendations of CIPFA’s *Treasury Management in the Public Services: Code of Practice* (the Code), as described in Section 4 of that Code. Accordingly, this document sets out the policies and objectives of the treasury management activities and practices which will create and maintain the cornerstones for effective treasury management and how it will manage and control those activities and associated risks.

Treasury Management Practices

1. Risk Management

1.1 General Statement -

The Chief Financial Officer (CFO) will be responsible for the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk. The CFO will report at least annually (as part of the annual review of the financial governance framework) to the Planning And Resources Committee (PARC) on the adequacy/suitability thereof, 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 the treasury management practice on reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in Appendix I of this document.

1.2 Liquidity Risk Management

The University will ensure 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 ongoing business/service objectives.

1.3 Interest Risk Management

The University will manage its exposure to fluctuations in interest rates with a view to containing costs, or securing interest revenues, while maintaining the security of the invested funds, in accordance with the amounts provided in its budgetary arrangements and in accordance with paragraphs 1.6 and 1.7 below.

1.4 Exchange Rate Risk Management

The University will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. 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 within a reasonable operating period.

Where the University holds euros on behalf of research partner institutions, these will be retained, in euros until the distribution is calculated and made.

1.5 Inflation Risk Management

The effects 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 financial strategy for managing its overall exposure to inflation.

1.6 Credit and Counterparty Risk Management

The University regards a prime 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 organisations with whom funds may be deposited (Appendix I), and will limit its investment activities to the instruments referred to in the treasury management practice on approved instruments listed in Appendix IV to this document. The counterparty list will be reviewed on a continuing basis but at least quarterly. The CFO will have the power to temporarily remove (and then to reinstate) any counterparty if any current issues should result in doubts over that counterparty's ability to repay funds.

1.7 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 light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

1.8 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. In framing its credit and counterparty policy under credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the University, particularly with regard to a duty of care and fees charged.

The University further 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 minimise the risk of these impacting adversely on the organisation.

1.9 Fraud, Error and Corruption, and Contingency Management

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, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends. Insurance arrangements to mitigate exposure to such risks will be considered from time to time when such risks are identified.

1.10 Market Risk Management

The University will seek to ensure that its 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.

2. Best Value and Performance Measurement

- 2.1 The University 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 its treasury management policy statement.
- 2.2 Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the University's stated business or service objectives. The performance of the treasury management function will be measured using criteria set out in Appendix II to this document.

3. Decision-making and Analysis

- 3.1 The University will maintain full records of its major 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 in Appendix III to this document.

4. Approved Instruments, Methods and Techniques

- 4.1 The University will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Appendix IV to this document and within the limits and parameters defined in the treasury management practice on risk management.

5. Organisation and Dealing Arrangements

- 5.1 The University considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of 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 clarity of treasury management responsibilities.

- 5.2 The University 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 (as part of the University Financial Plan), and an annual report (as part of the University Financial Statements) after its close, in the form prescribed in its treasury management practice on reporting requirements.
- 5.3 The University delegates responsibility for the implementation and monitoring of its treasury management policies and practices to PARC and the Investment & Treasury Assurance Group (ITAG) and for the execution and administration of treasury management decisions to the CFO, who will act in accordance with this policy. A summary of delegated responsibility is provided in the Scheme of Delegation.

6. Reporting Requirements and Management Information Arrangements

- 6.1 The Tax & Treasury Manager will ensure that the CFO and Deputy Director of Finance receive a monthly statement (as part of the monthly accounts production process) on the areas covered by the Treasury function so that they can consider the effects of decisions taken and transactions executed in pursuit of treasury management policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market and other factors affecting its treasury management activities; and on the performance of the Investment managers and treasury management function.

7. Budgeting, Accounting and Audit Arrangements

- 7.1 The CFO will ensure that the Treasury Management function is adequately resourced in the annual budget.
- 7.2 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 in force for the time being.
- 7.3 The University will ensure that its auditors, and those charged with regulatory review, have access to all the 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.

8. Cash and Cash Flow Management

- 8.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University will be monitored by PARC, 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 CFO will ensure these are adequate for the purposes of monitoring compliance with treasury management practice on liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in Appendix V to this document.

9. Money Laundering

- 9.1 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 staff involved in this area are properly trained.

10. Staff Training and Qualifications

- 10.1 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. It will therefore seek to appoint and retain 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.

11. Use of External Service Providers

- 11.1 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 their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
- 11.2 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 its funds and setting the treasury strategy. The University will normally seek to invest its endowment funds in long-term securities. Its objective in relation to such funds will be to achieve acceptable levels of capital growth and revenue as determined at the time of engagement.

12. Corporate Governance

- 12.1 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.
- 12.2 The University has adopted and has implemented the key recommendations of the Combined Code on Corporate Governance. This together with the other arrangements detailed in the appendices 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 and when appropriate, report upon the effectiveness of these arrangements.

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 flow forecasting and monitoring system which will identify the extent to which the organisation is exposed to the effects of potential cash flow variations and shortfalls
- university funds to be invested for a maximum of twelve months

Interest Rate, Exchange Rate and Inflation Risk Management

- lock out interest rate risk by entering into fixed interest rates on long-term capital financing
- hold foreign currency on an as required basis for operational purposes.

Credit and Counterparty Risk Management

- well documented records of the standing of third parties it does or may deal with, and continuous access to independent sources of advice and information of the same

Refinancing Risk Management

- reliable records and forecasts 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, its refinancing

Legal and Regulatory Risk Management

- comprehensive documentation of the organisation's own legal powers and regulatory requirements, and of those of its counterparties, 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 decisions, and in executing transactions, to enable an organisation to create a successful audit trail, and to allow it to assess the need for contingency arrangements

Market Risk Management

- Comprehensive records of an organisation's contractual responsibilities and liabilities under treasury management contracts with third parties, to enable it to fulfil its obligations thereunder

Approved Fund Managers

Endowment Funds

The University has a separate Sustainable & Socially Responsible Investment Policy that deals with endowed funds.

Maximum Deposits With Individual Counterparties

The University has a limit that it may place with any individual approved counterparty and these are set out in the table below. Deposit limits are to be calculated based on the sum of individual principle deposit amounts. These absolute exposures may only be exceeded when taking into account accrued interest. For the avoidance of doubt, accrued interest is to be excluded for the purposes of calculating compliance with the limits specified in this clause.

The above investment limits are to be applied to **total group exposures** to each entire banking group. The appropriate rating criteria must be met by any individual banking group company which is a deposit counterparty. Deposits should not be placed with subsidiaries which are not rated unless a guarantee structure is in place from a suitably rated entity. Parent company ratings should not be assumed to automatically apply to subsidiaries.

Approved Counterparty List

An Approved Counterparty List will be drawn up and maintained referring to Standard and Poor's, Fitch's and Moody's credit rating agency reports. The University will liaise monthly with a money broker for updates and the list will be reported to ITAG at their regular meetings. Additions may be made to the list only with the approval of the CFO. Counterparties may be removed from the list as soon as they are known to have fallen below the specified criteria. The University, in selecting approved counterparties, sets as a standard minimum credit rating the following:

	Max Duration	Max Deposit (on banking Group basis)	Minimum long- term rating required		
			S&P	Fitch	Moody's
UK and non UK banks and financial institutions	1 year	£7.5m	A	A	A2
UK and non UK banks and financial institutions	1 year	£5.0m	BBB+	BBB+	Baa1
UK and non UK banks and financial institutions	2 years	£7.5m	AA- (stable)	AA- (stable)	Aa3

For the avoidance of doubt, an approved counterparty must meet the minimum rating criteria from **any 2** rating agencies. Where a previously approved counterparty holds funds of the University at a time at which the rating changes to below the minimum level required from either agency, the decision as to whether leave such funds until maturity or immediate removal will be considered on a case by case basis, however the ordinary reaction will be to leave such holdings until maturity.

In addition, PARC has the authority to specifically approve for inclusion on the list counterparties that are rated below the minimum or are non-rated, where they think it appropriate.

Best Value and Performance Measurement**Cashflow Management**

- Preparation of weekly sterling cashflow forecast
- Accuracy of weekly sterling cashflow forecast
- Ongoing monitoring of foreign currency balances

Investment Returns

KPI	Frequency	Benchmark	Responsible Officer
£ Interest Receivable / Average £ Cash Balances in the month	Monthly	LIBOR	Treasury Accountant

Free Cash Flows

KPI	Frequency	Benchmark	Responsible Officer
Free cash flows	Monthly	Sufficient liquidity exists to meet operational cash requirements, based on projections to end of year.	Treasury Accountant
Debtors Days v creditors days (research)	Monthly	Crs > Drs	Operations Manager

Decision Making and Analysis

In respect of all decisions, the University will:

- be clear about the nature and extent of the risks to which the University may become exposed
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- be content that the documentation is adequate both to deliver the University's objectives and protect its interests, and to deliver good housekeeping
- ensure that third parties are judged satisfactory in the context of the University's creditworthiness policies, and that limits have not been exceeded
- be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive

In respect of borrowing and other funding decisions, the University will:

- evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding
- consider the ongoing revenue liabilities created, and the implications for the University's future plans and budgets

In respect of investment decisions the University will:

- consider the optimum period in the light of cash flow availability and prevailing market conditions
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the University to changes in the value of its capital.

In raising finance the CFO is authorised to apply to borrow using only the sources and methods set out in appendix IV. When considering raising finance the CFO and designated staff will have regard specifically to:

- the University's Ordinances, Financial Regulations, Scheme of Delegation and decisions of the University Court
- statutory restrictions
- the requirements of the financial memorandum with the funding council
- terms and covenants of borrowing.
- the level of security required for the project
- the value of assets already held as security on existing capital projects, and
- the maximum level of assets that should be provided as security without risking the overall stability of the University.
- effect of future movements in interest rates

The CFO, in conjunction with the University Court, will undertake on its behalf the borrowing activities of the University. Specific authority must be obtained from University Court unless authority is already provided under the Financial Regulations.

The Financial Regulations can be found at [financial-regulations](#).

The CFO and designated members of staff, as per the Scheme of Delegation, are authorised, subject to the provisions of the policy statement, to:

- deposit surplus funds with, and purchase certification of deposit issued by, any of the organisations listed in Appendix I of this statement and up to a maximum limit or sub-limit specified for each individual organisation;
- purchase UK short term Treasury Bills and other Government Bonds including Gilts;
- invest in AAA money market funds;
- invest in Bond funds with a AAA/V1 rating;
- invest in Financial Corporate Bonds meeting the Counterparty criteria detailed in Appendix 1 and subject to a limit of maximum exposure of 25% of the portfolio.
- borrow funds subject to the strategy agreed by the Policy and Resources Committee and within the regulations set down in the University's financial regulations.
- invest endowment funds and other balances held long term on the stock market.
- operate foreign bank accounts to the extent that they are necessary to facilitate the operational activities of the University. Foreign currency exposure currently extends to the holding of euro and US dollar balances.

Other investment types may be approved from time to time with authorisation in advance from PARC.

The operational mandate given to external cash and fund managers should be reviewed and approved by PARC (through ITAG) on an annual basis.

The Tax & Treasury Manager will prepare and 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.

The University will prepare cash flow forecasts and actuals on a 3 and 12 month rolling basis 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.