



Treasury Management Policy

December 2015

P
O
L
I
C
Y

Approving authority:	Court
Consultation via:	Finance Committee
Approval date:	December 2015
Effective date:	December 2015
Review period:	2020
Responsible Executive:	Director of Finance
Responsible Office:	Finance

HERIOT-WATT UNIVERSITY

TREASURY MANAGEMENT POLICY

CONTENT

Section		Page
1	Introduction	3
2	Risk Management	3
3	Decision Making and Analysis	6
4	Approved Instruments, Methods and Techniques	6
5	Organisation and Segregation of Responsibility	6
6	Reporting Requirements and Management Information	6
7	Accounting and Audit Arrangements	7
8	Cash and Cash Flow Management	7
9	Investments	7
10	Money Laundering	7
11	Staff Training and Qualifications	7
12	Use of External Service Providers	8
13	Banking Arrangements	8
Schedule A	Risk Management	9
Schedule B	Administration Arrangements	12
Schedule C	Further Help and Advice/ Policy Version and History	14

1. INTRODUCTION

This statement sets out the policies, practices and objectives of the University's treasury management activities, as approved by the Court.

The Policy covers all the UK operations of the University, *with the exception of the Edinburgh Business School, which has its own Treasury Management Policy.*

The University adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management in the Public Services Code of Practice

The University, in compliance with the CIPFA Code of Practice, 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.
- 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 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 comprehensive performance measurement techniques, within the context of effective risk management.

This policy is specific to cash management and therefore excludes the management of the permanent endowment assets which are managed separately through the Endowment Committee, which is a sub-committee of the Finance Committee. Any cash balances held by the University in relation to the permanent endowments assets, and the capital associated with any expendable endowments, will be managed as part of the overall University's cash balance and will therefore be covered by this policy and not the Endowment Committee.

The core principles the University will follow when investing money are:

- to ensure deposits are secure and that risk is minimised;
- to ensure it has sufficient liquidity to meet immediate and short term demands;
- to achieve the highest return, once the first two considerations have been met.

No treasury management activity is without risk and therefore defining the level of acceptable risk is essential. The treasury policies are designed to minimise the risk of capital loss but cannot eliminate it entirely.

2. 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 to the Finance Committee, and will report to the Finance Committee, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the University's objectives in this respect. In respect of each of the following

risks, the arrangements which seek to ensure compliance with these objectives are set out in Schedule A.

2.1 Credit Risk Management

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

The University regards a 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 organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques listed in Schedule A: 1.1. The list will be reviewed on an ongoing basis by the Director of Finance and at least annually by the Finance Committee.

The Finance Director 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.

2.2 Liquidity risk management

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs and that the University's business objectives will be thereby compromised.

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 business objectives. Funds available to the University are listed in Schedule A: 1.2.

2.3 Interest rate risk management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the University's finances, against which the University has failed to protect itself adequately.

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. It 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 in the level or structure of interest rates.

2.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the University's finances, against which the University has failed to protect itself adequately.

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 normally only retain funds in currencies to the extent that payments are due to be made in these currencies. This will be reviewed quarterly and consideration will be given in relation to any currency balances surplus to requirements and whether they should be transferred into sterling at the best rate achievable at that time. Further details are set out in Schedule A: 1.3.

2.5 Refinancing Risk Management

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 refinancing arrangements, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

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 the 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.

2.6 Legal and Regulatory Risk Management

The risk that the University itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the University suffers losses accordingly.

The University will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements.

2.7 Fraud, Error and Corruption, and Contingency Management

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.

The University will ensure that it has identified these circumstances and has taken the appropriate action, including the provision of appropriate and adequate internal controls and insurance cover. These activities will be reviewed on a regular basis as part of the internal audit plan.

2.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums the University borrows and invests, its stated treasury management policies and objects are compromised, against which effects it has failed to protect itself adequately.

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.

2.9 Covenant Breach Risk

The risk that the University fails to meet terms set by lenders which leads to default of loans and the resulting withdrawal of credit facilities.

The University will monitor its loan and facility covenant compliance on an ongoing basis appropriate to the risk. The Director of Finance will report annually to the Finance Committee on this as part of an annual Treasury Management Report, and will keep connected parties and subsidiaries informed on the covenant status where they have an interest as a guarantor.

The University will seek to minimise the security requirements of new debt and maximise the opportunity of the existing debt portfolio.

2.10 Inflation risk management

The risk that the University experiences a reduction in the real value of its monetary assets due to increases in the general level of prices for goods and services it consumes on a regular basis.

The Director of Finance will monitor the potential impact of inflation and will report annually to the Finance Committee on the likely impact of inflation and any mitigation strategies that have been followed.

3. 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.

4. APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

5. ORGANISATION AND SEGREGATION OF RESPONSIBILITIES

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. 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.

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. These are set out in Schedule B. The Director of Finance will also ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

6. REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION

The Finance Committee will as a minimum receive an annual Treasury Management report, covering the:

- strategy and plan to be pursued in the coming year;
- performance of the treasury management function during the year, including the reasons for and the effects of any changes to the strategy set at the beginning of the year;
- performance of any external service providers.

Further details are set out in Schedule B

7. ACCOUNTING AND AUDIT ARRANGEMENTS

The University will account for its treasury management activities 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 and any other bodies 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.

8. CASH AND CASH FLOW MANAGEMENT

The Director of Finance will have responsibility for the cash management of the University and its subsidiaries (excluding the Edinburgh Business School) as defined under this policy.

The Treasury Manager will prepare a monthly funds report detailing bank balances, deposits and borrowings and provide commentary on significant transactions.

Cash flow projections will be prepared on a regular and timely basis, and the Finance Director will ensure these are adequate for the purposes of monitoring compliance with treasury management practice on liquidity risk management.

9. INVESTMENTS

The Director of Finance together with the Director of Research and Enterprise Services (RES) will have responsibility for the management of investments in spin-out companies. The Director of Finance and the Director of RES will report annually to Finance Committee on the University's interests in spin-out companies, associates and subsidiary companies (***excluding the Edinburgh Business School which has its own investment management policy and processes***).

The Director of Finance will have responsibility for the management of all other investments.

10. 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 ensure that staff involved in Treasury activities are properly trained and fully aware of the University's Fraud Prevention Policy.

11. 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 the duties and responsibilities allocated to them. It will, therefore, seek to appoint individuals who are both capable and experienced, and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance will recommend and implement the necessary arrangements.

12. 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 proper 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. It will further ensure, where feasible and necessary, that a spread of service providers is used to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, the University's Procurement Policy 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 its funds and setting the treasury strategy.

13. BANKING ARRANGEMENTS

The University recognises the importance of ensuring effective control over its bank accounts. All funds due to the University are deposited in accounts with the University's main bank unless otherwise approved by the Director of Finance. Banking arrangements will be subject to periodic review. ***Edinburgh Business School is responsible for the management and control of its own bank accounts within the Group banking arrangements.***

SCHEDULE A**HERIOT WATT
UNIVERSITY****TREASURY MANAGEMENT POLICY****1. RISK MANAGEMENT****1.1 CREDIT AND COUNTERPARTY LISTS**

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

The Director of Finance is responsible for monitoring the credit standing of approved counterparties. Where there is reason to believe that a counterparty's credit standing is or may become impaired the Director of Finance should apply lower limits than set out in this schedule or cease to use them. Any change to the counterparty list should be advised to the Finance Committee.

All counterparties must have a minimum short-term rating of F1 from Fitch, A1 from Standard & Poor's or P1 from Moody's. Where a counterparty has multiple ratings all the ratings should normally meet these requirements. The Finance Committee can authorise the use of counterparties where some, but not all, of the ratings meet these requirements as long as the ratings not meeting these requirements are no lower than F2 Fitch, A2 Standard & Poor's or P2 Moody's. These ratings will be reviewed at least quarterly for institutions in which funds are held and before any new funds are deposited. In addition to credit ratings, relevant information from financial advisors and the media will be taken into consideration.

No deposits should be committed for a period in excess of 12 months.

As the University's main flexible facility is a rolling credit facility, the policy is to minimise this facility whilst maintaining sufficient funds are always available to meet any short-term liquidity needs. In the event that there are funds to deposit, the Director of Finance is authorised to deposit surplus funds of the institution with any of the organisations listed below to ensure achievement of the best net returns available.

The approved counterparty list is as follows:

<u>Counterparties</u>	<u>Limits</u>		<u>Account Type</u>	<u>Time Period</u>
University's main bankers – Barclays	£20 m	50%	Fixed term deposits AAA rated money market funds*	Up to 12 months

Lloyds Banking Group (including Bank of Scotland)	£20m	50%	Fixed term deposits AAA rated money market funds*	Up to 12 months
Santander UK plc	£20m	50%	Fixed term deposits AAA rated money market funds*	Up to 12 months
Royal Bank of Scotland	£20m	50%	Fixed term deposits AAA rated money market funds*	Up to 12 months

The limits set out above may be amended only with approval of the University's Finance Committee.

* Total investments in money market funds should not exceed 10% of the total amount of cash and deposits

The University and its subsidiaries may from time to time invest surplus funds with other counterparties. Such deposits require the prior approval of the Director of Finance and must be within the limits for the main counterparties noted in the table above. All such deposits will be referred to in the Annual Treasury Management Report to the Finance Committee.

1.2 LIQUIDITY

The University maintains an effective cash and cash flow forecasting and monitoring system which identifies the extent to which the University is exposed to the effects of potential cash flow variations and shortfalls on a daily basis.

The University currently has access to the following borrowing facilities.

Source	Funding Type	Facility Limit
Barclays Bank plc	Revolving Credit Facility	£20 million

As the University's main facility is a rolling credit facility the policy is to minimise this facility whilst maintaining sufficient funds are always available to meet any short term liquidity needs. This need is met through holding funds within the current/overnight account with the University's main banker Barclays Bank PLC

1.3 EXCHANGE RATE EXPOSURE POLICY

The University's policy is to minimise exposure to exchange rate fluctuations balanced by the need to effectively manage the operations of its overseas campuses in Malaysia and Dubai. In that context, the University aims to conduct all transactions in UK Sterling (GBP) as its base currency and the currency which reflects the vast majority of its cost base. There will, however, be exceptions. These include

- EU research contracts, whereby the University will need to conduct transactions in other currencies.
- Transactions between the University and its overseas campuses in Dubai and Malaysia

The University does not operate any currency hedging arrangements. This is primarily due to the nature of many of these contracts that makes it difficult to predict the amount and timing of receipts with the necessary level of certainty. The University does maintain Euro, US Dollar, AED and Malaysian Ringgit accounts which are used where necessary to match payments and receipts at the University and its overseas campuses.

Currency receipts at the Edinburgh campus, are converted into sterling upon receipt with the exception of certain Euro receipts relating to research activity. Deposits of Euros are retained where appropriate to cover anticipated currency payments. The balances on these bank accounts are reviewed on a monthly basis and any excessive holdings when compared to known commitments are converted into GBP.

The Director of Finance is authorised to buy and sell currencies with any of the organisations listed below.

<u>I</u>	<u>Limits</u>
University's Bankers	\$10 million Euro 5 million
Other UK Clearing Banks and approved counterparties (see 1.1)	\$5 million Euro 3 million
Financial Brokers (Registered by the FSA)	\$5 million Euro 3 million

The limits set out above may be amended only with approval of the Finance Committee.

1.4 REFINANCING

In the event that the University needs to either renew existing borrowing facilities or obtain new facilities, the Director of Finance will report to the Finance Committee to explain the basis of any such requirement. Once approved in principal by the Finance Committee, the Director of Finance, along with the University's financial advisors, will conduct an appropriate process with potential funders to secure the best terms for the University. Any arrangements are subject to final review and approval by the Finance Committee.

SCHEDULE B

HERIOT-WATT UNIVERSITY

TREASURY MANAGEMENT POLICY

ADMINISTRATION ARRANGEMENTS

1. TENDERING

The Director of Finance will review regularly the quality and cost of banking services and if deemed necessary will seek Finance Committee's approval for a tender exercise in respect of these services. The timetable for re-tendering may be pre-determined by the University's procurement policy and the expiry date of existing agreements.

The tender process will be that normally followed by the University, contained within its Financial Regulations and Procurement Policy. The Finance Committee is responsible for the appointment of the service provider on the recommendation of the Director of Finance.

2. PERFORMANCE MEASUREMENT

Cash deposits will be reported at each month end showing amount, counterparty, period and interest rate. The report will also include interest rates offered by other approved banks.

3. ORGANISATION AND SEGREGATION OF RESPONSIBILITIES

3.1 UNIVERSITY COURT

The Court will receive and review reports on treasury management policies, practices and activities, if appropriate

3.2 FINANCE COMMITTEE

- To agree to University's borrowing strategy
- Approval of, and consideration of amendments to, the University's treasury management policy and practices
- To review borrowing requirement and approve borrowing facilities
- To receive and review the Annual Treasury Management report and any interim reports as deemed necessary

The Director of Finance will provide an Annual Treasury Management Report which will cover the following:

- Commentary on treasury operations for the year.
- Cash flow compared with budget and commentary on variances.
- Financial strategy for the next financial year.
- Proposed amendments to the treasury management policy statement.
- Matters in respect of which the treasury management policy statement has not been complied with
- Analysis of currently outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover period.

3.2 DIRECTOR OF FINANCE

The Director of Finance is authorised, subject to the provisions of the policy statement, to:

- Recommend the treasury management policy and practices for approval, reviewing the same regularly and monitoring compliance.
- Receive and review management information reports and to provide at least annually a treasury report to Finance Committee
- Review the performance of the treasury management function and promote best value reviews.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Recommend the appointment of external service providers.
- Approve the deposit of surplus funds with counterparties other than overnight with the University's main bankers
- Ensure the revolving credit facilities are operated within the limits agreed by the Finance Committee.
- Operate foreign bank accounts to the extent that they are necessary to facilitate the operational activities of the University.
- Ensure the adequacy of internal audit, and liaising with external audit

3.3 GROUP FINANCIAL CONTROLLER

The Financial Controller will:

- Receive and review monthly fund reports
- Manage treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Maintain relationships with third parties and external service providers
- Supervise treasury management staff
- Identify and recommend opportunities for improved practices
- Authorise the execution of transactions in accordance with loan covenants and University payment policy procedures
- Provide cover for the Treasury Manager

3.4 TREASURY MANAGER

The Treasury Manager will:

- Execute transactions
- Adhere to agreed policies and practices on a day-to-day basis.
- Maintain relationships with third parties and external service providers
- Prepare and maintain systems documentation relating to the treasury function.
- Monitor cash flows on a daily basis.
- Submit management information reports to the Director of Finance and Group Financial Controller as required.
- Prepare monthly fund reports
- Identify and recommend opportunities for improved practices

SCHEDULE C

FURTHER HELP AND ADVICE

Any questions or clarifications relating to this Policy should be referred to the Group Financial Controller

POLICY VERSION AND HISTORY

Version No	Date of Approval	Approving Authority	Brief Description of Amendment
v1.0	December 2015	Court	Fully revised and updated policy

P
O
L
I
C
Y