# Treasury Management Policy

**Approving Body:** Council

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**Policy owner:** Director of Finance and Corporate Services

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## 1.0 Introduction

As per the Aberystwyth University Financial Regulations, the Director of Finance and Corporate Services is responsible for controlling the day to day financial administration of the University, including investing the University cash in-line with the Treasury Management Policy and initiating opening or closing a bank account for dealing with the University's funds.

This Policy is issued by the Director of Finance and Corporate Services who is responsible for the development and maintenance of the Treasury Policy and Procedures (as reported to the Resources and Performance Committee)

Effective treasury management will support the University in achieving its strategic and operational objectives.

The University is required to comply with the terms of the Financial Management Code (W17/16HE) between HEFCW and Institutions, including specific terms relating to financial commitments.

https://www.hefcw.ac.uk/documents/publications/circulars/circulars_2017/W17%2016HE%20Financial%20Management%20Code.pdf

### 1.1 Purpose

This statement sets out the policies, practices and objectives of the University's treasury management activities as approved periodically by Council and covers the University and all its related companies.

The purpose of this policy is to set out how the University will manage its treasury management activities in order to control the associated risks and optimise 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. The Investment Committee is responsible for the University's investments including cash funds and reports to Resources and Performance Committee.

### 1.2 The CIPFA Code

The University adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (2011 Edition).

In compliance with the CIPFA Code of Practice, the University defines:

- 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.*

- Credit and counterparty risk as:

*The risk of failure by a third party to meet its contractual obligations to the institution, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the institution's capital and revenue resources.*

- Refinancing risk as:

*The risk that maturing borrowings cannot be refinanced on terms that reflect the provisions made by the institution for those refinancing, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.*

### 1.3 Scope

The policy applies to any transactions covered in the definitions above, for the University and its subsidiaries and any external advisors when undertaking treasury management activities.

## 2 <u>Policy Statement</u>

### 2.1 Risk management

The Director of Finance & Corporate Services will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The arrangements are set out below:

#### 2.1.1 Liquidity Risk Management

*This 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 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 .

It will at all times have sufficient funds available equivalent to a minimum of 60 days cash covers, except as otherwise agreed by Council, for a specific reason.

#### 2.1.2 Interest Rate/Inflation 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 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 to the level or structure of interest rates.

The Resources and Performance Committee will consider recommendations from the University Executive to manage the interest rate exposure prior entering into any new borrowing arrangements.

### 2.1.3 Exchange Rate Risk Management

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

The University will not expose itself to unnecessary or speculative exchange rate risk.

The University will retain funds in currencies only to the extent that payments are due to be made in those 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.

### 2.1.4 Credit and Counterparty Risk Management

*Credit and counterparty risk is defined 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.*

The University regards the prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty list is constructed with security in mind, but with a reasonable spread to make the most of market conditions.

The Finance Department will maintain a list of approved counterparties showing both the current and 2 previously reported credit ratings for review by the Reporting and Performance Committee at each of their scheduled meetings.

The list of approved counterparties will be based on minimum credit ratings from at least two out of the three main credit rating agencies (Standard and Poors, Moodys and Fitch), using judgement to deposit monies over a number of financial institutions, in order to spread counterparty risk.

| | Short term | Long term |
|---|---|---|
| Moody's | P-1 | Aa1 / Aa2 / Aa3 |
| S&P | A-1 | A+ / A / A- |
| Fitch | F1 | AA+ / AA / AA- |

The Resources and Performance Committee has the authority to specifically approve for inclusion on the list counterparties that are rated below the minimum or are non-rated, where they consider it appropriate to do so.

Where the University has placed funds on fixed term deposit and circumstances change such that there is a rating agency downgrade or the University received advice regarding the counterparty's creditworthiness, no further funds will be deposited with that counterparty. Existing deposits will be allowed to mature unless the change indicates a fundamental deterioration in the institution's financial position to the extent that the security of the deposit is considered at risk. In such circumstances, the Director of Finance and Corporate Services will seek the early return of the deposit and will attempt to minimise the breakage costs of the early return.

### 2.1.5 Refinancing Risk Management

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.

### 2.1.6 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.*

The University will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. Where necessary, independent advice will be followed prior to entering into agreements ensuring that this risk is minimised.

### 2.1.7 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*.

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 those ends.

### 2.1.8 Market Risk Management

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

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 it from the effects of such fluctuations.

Where monies are to be held for the long term, the University will invest for capital growth and seek to manage the risk of adverse market fluctuations in the value of the principal sums invested through diversification. This will generally be achieved through investment in a balanced portfolio managed by professional external investment managers.

Long term investments, where the value of the principal is subject to market fluctuations, will generally be restricted to permanent endowment funds and any significant expendable endowment funds where the expectation is that the principal will be held for the long term. Long term investment of non-endowment monies is subject to the Resources and Performance Committee approval.

## 2.2 Value for Money and Performance Management

The University is committed to the pursuit of best value in its treasury management activities and to the use of performance measuring in support of that aim. Accordingly, the treasury management function will regularly examine alternative methods of service delivery to ensure best value and will measure its performance using appropriate benchmarks. An annual report on the treasury activity will be brought to the Resources and Performance Committee covering the previous financial year no later than the end of the calendar year.

Long term investment will be measured against a benchmark agreed with the investment advisors by the Investment Committee as noted in the investment policy. Long term investments are subject to regular scrutiny the Investment Committee.

## 2.3 Decision making and analysis

The University will maintain full records of its treasury management decisions and ensure they are in accordance with this policy.

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

- have due regard to its constitutional powers and any relevant statutory and regulatory requirements
- evaluate the economic and market factors that might influence the manner and timing of any decision
- consider the alternative interest rate bases available and the most appropriate means of minimising interest rate exposure, the most appropriate periods to fund and repayment profiles to use; and
- consider the ongoing revenue liabilities created, and the implication for the University's future plans and budgets

## 2.4 Approved instruments, methods and techniques

The University will undertake its treasury management activities by employing only those instruments, methods and techniques as recommended in the CIPFA code of practice. *Please refer to Schedule A*

## 2.5 Approved Methods of Raising Capital Finance

The Director of Finance and Corporate Services has the authority to undertake the borrowing activities of the University, subject to approval by the Council. Please refer to Schedule B

## 2.6 Audit Arrangements

The University will ensure that its auditors, both external and internal, 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.

## 2.7 Cash and Cash flow Management

The Director of Finance and Corporate Services is responsible for all University monies. All funds will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis. The quarterly financial report will include a cash flow statement and forecast.

## 2.8 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. The University has a money laundering policy which will be kept up to date. Further information is available via the Financial Procedures (section 7) https://www.aber.ac.uk/en/media/departmental/finance/pdf/pdf/Financial-Procedures---May-2017.pdf

## 2.9 Use of External Service Providers

The University will evaluate the costs and benefits involved when employing external specialists. 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 formal tender or re- tender arrangements, legislative requirements will always be observed. At all times obtaining best 'Value for Money' will be one of the main objectives of the University.

# 3 <u>Corporate Governance</u>

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.

## 3.1 Responsibility

The Director of Finance and Corporate Services has overall responsibility for this policy. The Assistant Director of Finance (Controllership) has responsibility for ensuring it is effectively implemented, progress monitored and that the policy is regularly reviewed.

## 3.2 Policy Enforcement

Any breaches of the policy including where the ratings of a bank fall outside the agreed range to be reported to Resources and Performance Committee.

## 3.3 Related Documentation

The following documents can be found on the University Website:

- Financial Regulations (Finance section)
- Counter Fraud and Malpractice Policy
- Anti-bribery Policy
- Investment Policy

**Schedule A - Approved Instruments, Methods and Techniques for Investment and Deposit of Surplus Funds**

a) The overriding principle guiding the investment of surplus funds is to achieve a satisfactory return within the constraint of prudence.

b) Surplus cash balances may be invested as follows:

i) Deposits with approved banks

ii) Deposits with approved Building Societies

iii) Certificates of deposit issued by approved banks

iv) Deposits with approved Money Market Funds including Sterling Cash Plus Funds

v) Segregated Funds

vi) Covered and Corporate bonds

vii) UK Government, Government Agency and Treasury Bills

**Schedule B - Approved Methods of Raising Capital Finance**

The Director of Finance and Corporate Services has the authority to undertake the borrowing activities of the University, subject to approval by the Council.

The Director of Finance and Corporate Services will prepare a report for each proposed capital borrowing, which will then form the basis of a recommendation to Council. The report will include the following:

(i) Borrowing Requirements
(ii) Proposed Lender
(iii) Interest Rate Structure – fixed, variable, variable with options to fix, index linked, deferred interest
(iv) Interest Rate – base plus lender's margin
(v) Arrangement Fees
(vi) Security Arrangements
(vii) Purpose (with cash flows)
(viii) Comparisons with Alternatives
(ix) Arrangements for Draw-down
(x) Legality
(xi) Arrangements for compliance with the Memorandum of Assurance and Accountability with the Higher Education Funding Council for Wales
(xii) Any other matters which might assist Council in considering the proposal

In raising capital, the Director of Finance and Corporate Services, with approval from the Resources and Performance Committee, is authorised to approach any bank or financial institution in the UK under the University's procurement policies. Competitive tendering will always be used to obtain value for money.