

## UNIVERSITY OF ABERDEEN

### TREASURY MANAGEMENT POLICY STATEMENT

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

1. The University of Aberdeen adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management in the Public Services: Code of Practice.
2. The University of Aberdeen, in compliance with the CIPFA Code of Practice, defines its treasury management activities as:  
the management of the institution's 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.
3. The University of Aberdeen 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.
4. The University of Aberdeen acknowledges that effective treasury management will provide support towards the achievement of its business 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.

Updated: Operating Board on 15 June 2010.

## TREASURY MANAGEMENT PRACTICES

### 1. RISK MANAGEMENT

#### General statement

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the institution's objectives in this respect, all in accordance with the procedures set out in Treasury Management Practice: 6 *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.

#### 1.1 Liquidity risk management

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

*The University of Aberdeen 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.*

#### 1.2 Interest rate risk management

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

*The University of Aberdeen 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.*

#### 1.3 Exchange rate risk management

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

*The University of Aberdeen will retain funds in currencies only to the extent that payments are due to be made in these currencies. Currency receipts surplus to this will be transferred into sterling at the best rate achievable, but always retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level of exchange rates.*

#### 1.4 Inflation risk management

Inflation risk is defined as the risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately.

*The University of Aberdeen will manage its exposure to varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, as an integral part of its strategy.*

## TREASURY MANAGEMENT PRACTICES

### 1.5 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 institution 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 institution's capital or revenue resources.

*The University of Aberdeen 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 list is constructed with security in mind, but with a reasonable spread to make the most of market conditions. The list will be reviewed on a continuing basis and at least annually.*

### 1.6 Refinancing risk management

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

*The University of Aberdeen 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 institution as can reasonably be achieved in the 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.*

### 1.7 Legal and regulatory risk management

Legal and regulatory risk is defined as the risk that the institution itself, or a third party 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 institution suffers losses accordingly.

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

### 1.8 Fraud, error and corruption, and contingency management

This risk is defined as the risk that an institution 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 of Aberdeen will ensure that it has identified these circumstances and has taken appropriate action.

### 1.9 Market risk management

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

*The University of Aberdeen 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.*

## **TREASURY MANAGEMENT PRACTICES**

### **2. BEST VALUE AND PERFORMANCE MEASUREMENT**

The University of Aberdeen 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.

Accordingly, the treasury management function will be the subject of regular examination of alternative methods of service delivery, and of the scope for other potential improvements. The performance of the treasury management function will be measured using appropriate benchmarks.

### **3. DECISION MAKING AND ANALYSIS**

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

### **5. ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

The University of Aberdeen considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

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 detailed in Schedule D to this document.

The Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the University's Cash Management Procedures.

## TREASURY MANAGEMENT PRACTICES

### 6. REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The University of Aberdeen will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Operating Board will receive:

- an annual report on the strategy and plan to be pursued in the coming year (contained within the 10 year cash flow plan)
- an annual report on the 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.
- an annual report on the performance of any external service providers.

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

### 7. BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

The form which The University of Aberdeen's budget will take is set out in the University's Financial Regulations. The Director of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with Treasury Management Practice.

The University of Aberdeen will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of [The University of Aberdeen's accounts](#) is set out in the Finance Department web page.

The University of Aberdeen will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment 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

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of The University of Aberdeen will be under the control of the Director of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with Treasury Management Practice 1.1 *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the University's Financial Regulations.

## TREASURY MANAGEMENT PRACTICES

### 9. MONEY LAUNDERING

The University of Aberdeen 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 are properly trained. The present banking arrangements are detailed in the University's Financial Regulations which is accessible from the [Policy Zone](#) in StaffNet.

### 10. STAFF TRAINING AND QUALIFICATIONS

The University of Aberdeen 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.

### 11. USE OF EXTERNAL SERVICE PROVIDERS

The University of Aberdeen 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, and it will 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, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance.

### 12. CORPORATE GOVERNANCE

The University of Aberdeen is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

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

## SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES

### A: RISK MANAGEMENT

#### 1. LIQUIDITY

The University's policy is to maintain cash balances equivalent to one month's core operating and payroll costs. For 2010/11 this equated to around £12m.

The Director of Finance is authorised to arrange short-term overdraft facilities with the University's bankers, currently The Bank of Scotland.

#### 2. EXCHANGE RATE EXPOSURE POLICY

The University's policy is to avoid exposure to exchange rate fluctuations.

Currency receipts should be transferred into sterling within one month of receipt, except where currency payments are due to be made, or where currencies are in adverse fluctuations.

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

<u>Institution</u>	<u>Limits</u>
University's Bankers	No limit
Scottish Clearing Banks	\$10 million Euro 5 million
Financial Brokers Regulated by the FSA	\$10 million Euro 5 million

The limits set out above may be amended only with approval of the University's Operating Board. The Director of Finance will take expert advice on the credit rating of any Financial Broker.

#### 3. CREDIT AND COUNTERPARTY LISTS

The Director of Finance is responsible for monitoring closely the credit standing of approved counterparties. Where he/she 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 cease to use them. Any change to the counterparty list should be advised to the Operating Board.

The Director of Finance is authorised to deposit surplus funds of the institution with, and purchase certificates of deposit issued by any of the organisations listed below, to ensure achievement of the best returns available.

## SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES

<u>Counterparties</u>	<u>Limits</u>	<u>Time Period</u>
University's Bankers	£10 million	Up to 12 months
Scottish Clearing Banks	£10 million	Up to 12 months
UK Bank/Institution Per credit rating list Schedule F	£10 million	Up to 12 months
Other Banks Per credit rating list Schedule F	Euro 5 million Dollar 5 million	Up to 6 months Up to 6 months

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

#### 4. REFINANCING

Where it is the intention of the institution to raise capital for new institutional projects, the Director of Finance will have regard to:

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

## SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES

### **B: BEST VALUE AND PERFORMANCE MEASUREMENT**

#### **1. FREQUENCY AND PROCESS FOR TENDERING**

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

The University Court is responsible for the appointment of the service provider, on the recommendation of the Operating Board.

Banking services

Fund management services

Financial adviser

Cash management, money broking services and general financial advice.

#### **2. PERFORMANCE MEASUREMENT**

##### **2.1 IN-HOUSE PERFORMANCE**

The benchmark for interest earned on self managed funds will be:

Euros	base-rate
US \$	base-rate
£	base-rate

Quarterly reports detail funds held, interest earned, and comparison to benchmark. This is contained within the University Monthly Management Report.

##### **2.2 INVESTMENT MANAGERS**

Benchmarks and reporting requirements as set out in Agreement with the Fund Manager, and are under the control/remit of the Advisory Group on Investment.

##### **2.3 CASH MANAGERS/GENERAL FINANCIAL ADVICE**

Benchmarks and reporting requirements as set out in specific Agreements with the manager.

##### **2.4 DEBT MANAGEMENT**

Benchmarks and reporting requirements as set out in the Credit Control Procedure manual.

## **SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES**

### **C: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

#### **INVESTMENT AND DEPOSIT OF SURPLUS FUNDS**

1. The overriding principle guiding the investment of surplus funds is to achieve a satisfactory return while reducing risk to a level acceptable to Operating Board.
2. The University has appointed external fund managers to manage the investment of endowments funds, and this is managed via the Advisory Group on Investment.
3. Surplus cash balances may be invested as follows:
  - Deposits with approved banks.
  - Deposits with approved Building Societies.
  - Certificates of Deposit issued by approved banks.

These investments are limited to the names on the counterparty list (Schedule F).

## **SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES**

### **D: ORGANISATION, SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS**

#### **RESPONSIBILITIES OF TREASURY MANAGEMENT POSTS**

##### **(i) UNIVERSITY COURT**

- Receiving and reviewing reports on treasury management policies, practices and activities, if appropriate.

##### **(ii) OPERATING BOARD**

- Approval of/amendments to the University's adopted clauses, treasury management policy statement and treasury management practices.
- Budget consideration and approval.
- Approving the selection of external service providers and agreeing terms of appointment.
- Approval of the University's Financial Regulations.

##### **(iii) DIRECTOR OF FINANCE**

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function and promoting best value reviews.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

##### **(iv) TREASURY MANAGER**

- Execution of transactions.
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers.
- Supervising treasury management staff.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Director of Finance.
- Identifying and recommending opportunities for improved practices.

## **SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES**

### **E: REPORTING REQUIREMENTS**

The following matters should be included in Reports to the Operating Board.

#### **1. ANNUAL REPORT**

- Commentary on treasury operations for the year.
- Cash flow compared with budget, commentary on variances and performance achieved.
- Borrowing level, and details of outstanding loans/leases.
- Annual financial strategy for the next financial year (contained within the 10 year cash flow plan).
- Proposed amendments to the treasury management policy statement.
- Matters in respect of which the treasury management policy statement has not been complied with.

#### **2. PERIODIC REPORTS**

- Analysis of currently outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover period.
- Cash flow compared with budget and commentary on variances.
- Commentary on continued applicability of annual financial strategy and proposals for amendments thereto.
- Revisions to following 12 months cash flow forecast and to estimates of future interest rates; effect on annual financial strategy and on revenue budget.
- Proposed amendments to list of approved counterparties and to limits.
- Proposed amendments to treasury systems document.
- Matters in respect of which the treasury management policy statement, the annual financial strategy or the treasury systems document have not been complied with.

**SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES**

**F: APPROVED COUNTERPARTY LISTS**

<b>THE ENGLISH AND SCOTTISH CLEARING BANKS AND THEIR SUBSIDIARIES</b>					
	<u>Short term</u>	<u>Long term</u>		<u>Short term</u>	<u>Long term</u>
<b>Barclay's Bank</b>	F1+	AA+		<b>Lloyds TSB Bank</b>	F1+ AA+
<b>HBOS Group</b>				TSB Bank Scotland	
Halifax	F1+	AA+		<b>N.A.B. Group</b>	A1+ AA-
Bank of Scotland	F1+	AA+		Clydesdale Bank plc	
Bank of Scotland (Ireland)				<b>Royal Bank of Scotland Group</b>	F1+ AA
				Adam & Co	
<b>HSBC</b>	F1+	AA		National Westminster Bank	
				Ulster Bank of Ireland	
<b>OTHER INSTITUTIONS</b>					
	<u>Short Term</u>	<u>Long Term</u>			
Abbey National	F1+	AA-			
Nationwide	F1+	AA-			
Royal London Cash Management (as per client agreement)		AA-			
Citibank – Dollar Zone					
Rabo Bank – Euro Zone					