**University of the Highlands & Islands**

**Treasury Management Policy**

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**1. Introduction**

Treasury management is managed within the Finance Department.

Treasury management is the management of all cash resources, investments and funding requirements of the University and its subsidiary companies and the control of associated risks.

The treasury management policy and decisions made in relation to this policy take into account:

* The University’s strategy;
* The University’s budget;
* The capital expenditure programme;
* Cash flow forecasts;
* Working capital requirements.

The policy is reviewed by the Director of Corporate Resources on an annual basis and approved as required by the Finance & General Purposes Committee. To minimise market risk, any changes in economic conditions that are considered to have a direct impact on the University and the treasury management policy will be addressed by the Director of Corporate Resources and by the Finance & General Purposes Committee out with the annual review of the policy.

**2. Objectives**

The objectives of the University’s treasury management policy are:

* To safeguard cash balances by effectively identifying, managing and controlling risk,
* To manage current account balances to ensure funds are available to meet day to day working capital requirements,
* To maximise returns from short term investments while minimising risk,
* To ensure borrowings whether secured or unsecured are at competitive market rates and sustainable by the University,
* To manage relationships with financial institutions and treasury management consultants.
* To maximise returns from investments held, whilst minimising risk.

**3. Risk management**

Monitoring the identification, management and control of treasury management risk is critical to ensure the objectives of the treasury management policy are met. Risks to be managed and controlled are:

* **Liquidity risk**

To ensure sufficient funds are available on a daily basis to cover working capital needs.

* **Counter party risk**

The security of funds invested is a prime objective. Surplus funds in excess of working capital needs should be invested with approved financial institutions taking into account approved maximum deposit levels and length of placements.

* **Interest rate risk**

The effects of fluctuating interest rates will be incorporated in the University’s cash flows and considered in the investment profile.

* **Exchange rate risk**

The University is restricted by Charity Law and where permitted to do so may enter into currency derivative instruments to reduce exchange rate risk. Any scheme for derivative instruments will be approved by the Finance & General Purposes Committee.

* **Inflation risk**

The impact of inflation on projected cash flows will be taken into account.

* **Legal and regulatory risk**

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

* **Fraud, error and corruption and contingency management risk**

The University will make suitable arrangements to ensure that it has minimised the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings.

The University will therefore:-

* + - Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
    - Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
    - Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
    - Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.
* **Refinancing risk**

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 as can be achieved in the light of market conditions prevailing at the time. It will actively manage its relationship with its counterparties in such transactions.

* **Market risk**

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 it from the effects of such fluctuations.

**4. Cash and cash flow management**

Cash management is considered to be ‘the effective planning, monitoring and management of liquid/ near liquid resources’ and is one of the key tools for managing liquidity.

The University recognises the importance of ensuring effective control over its bank accounts. To ensure management of day to day cash balances, all funds due to the University are deposited in accounts with the operational bank. Working capital is considered on a daily basis to ensure sufficient funds are available to meet payment runs.

Cash flow projections are prepared on a monthly basis by the Finance Manager. The cash flow model uses the current year budget and agreed capital expenditure programme as a base and is updated monthly for actual cash movements. The model provides an estimate of the cash position at the end of the current financial year and the estimated position at the end of the next four financial years taking into account interest rate, inflation rate and market risks.

Cash flow management assists compliance with liquidity risk management and forms the basis of the investment and borrowing strategy adopted by the University.

**5. Short term investment strategy**

The key principles, in order of importance for the University, when looking at short term investments are:

* **Security**

The strategy must ensure an investment is received back when the investment matures in order to meet its payment obligations.

* **Liquidity**

The strategy must consider the duration of any investment to ensure funds are available when required to meet financial obligations. In the event that the University uses market products other than term deposits it must consider the ease of converting an investment into cash at any time prior to its maturity without unduly affecting its value.

* **Yield**

Yields can be optimised only when security and liquidity objectives have been satisfied.

**Security**  is paramount and consists of *counterparty risk* and *market risk*. *Counterparty risk* is the risk that the counterparty will not meet its obligation to repay the principal and interest in full and when due. This is addressed when considering all new investments as surplus cash can only be placed with financial institutions that are approved by the Finance & General Purposes Committee.

**Policy on the use of credit risk analysis techniques**

1. The University will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors as well as other market indicators, such Credit Default Swaps (see below).
3. Capita Asset Services (CAS) will provide regular updates of changes to all ratings relevant to the University.
4. The Director of Corporate Resources will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

The University utilises the creditworthiness service provided by Capita Asset Services. This uses a sophisticated modelling approach with credit ratings from all three rating agencies (Fitch, Moodys and Standard & Poors). However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

* Credit watches and credit outlooks from credit rating agencies
* Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
* Sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to assess overall creditworthiness. This is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These ultimate colour codes are used by the University to determine the duration for investments and are therefore referred to as durational bands. The Director of Finance is satisfied that this service gives the University as robust a basis as is possible in determining how to ensure the security of its investments.

\* This was due to a regulatory change imposed by the FInancial Conduct Authority on UK banks in terms of which assets counted as being liquid assets on bank balance sheets

* green - 100 days (change from 3 months )\*
* red - 6 months
* orange - 12 months
* blue for part semi nationalised UK banks – 1 year
* purple - 2 years
* yellow - 5 years

Credit ratings for individual counterparties can change at any time. The Director of Finance is responsible for applying approved credit rating criteria for selecting approved counterparties. The counterparties on the approved counterparty list are set in line with the policy on criteria for selection of counterparties.

1. maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

|  |  |  |  |
| --- | --- | --- | --- |
| Organisation | Criteria | Max Amount | Max Period |
| Deposits Royal Bank of Scotland and Natwest, as individual counterparties. | Blue (for part semi nationalised UK banks) | £5m | 12 months |
| Deposits with Bank of Scotland and Lloyds as individual counterparties. | Red | £5m | As per CAS methodology (6 months) |
| Deposit with Banks and Building Societies other than Bank of Scotland and Lloyds Royal Bank of Scotland/Natwest | As per CAS methodology | £3m | As per CAS methodology |
| Certificates of deposit (CDs) \* | As per CAS methodology | £3m | As per CAS methodology |

One exception to CAS methodology: instant access monies held with Clydesdale Bank, our main bank service provider.

\* This will require the opening of a Custodian Account which can be done at no cost through King and Shaxon, a money broker. CAS has negotiated this arrangement on behalf of its client base.

The CD is similar to a term deposit in that the University pays over cash to invest but additionally this is a negotiable instrument and it can be sold before its final maturity date, unlike the term deposit which must be held until its agreed maturity date. The Certificate is held in a Custodian Account in the name of the University. The CD is exposed to market risk if the University decides to sell before its final maturity date.

*Market risk* is the risk that on realisation prior to their maturity, investments may be worth less than expected. It is addressed by considering market conditions and expectations’ regarding future interest rate rises. Generally short dated investments carry lower risk than long dated investments. It is unlikely that the University will sell these market instruments before final maturity and thereby have will have no exposure to a loss on early realisation. The Director of Corporate Resources would seek approval for any such instruments by the Finance and General Purpose Committee before being utilised.

**Liquidity** is addressed after security. Short term investments considered by the University range from the most liquid investments of funds in the Current Accounts and Money Market (Term) Deposits to illiquid Fixed Term Bonds.

**6. Borrowing strategy**

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| --- |
| The key principles, in order of importance for the University, when looking at short term borrowings are:   * **Availability**   The ability to borrow a sufficient quantity of money as needed for reasonable term and at a reasonable price. |
| * **Flexibility**   The ability to tailor the drawdown of facilities to the University’s anticipated cash flow requirements and the ability to alter the borrowing profile as circumstances change. |
| * **Diversification**   The range of borrowing sources should be such to reduce the chance that all become unavailable at the same time. |
| * **Cost**   Cost is important however the University must ensure that it has liquidity to continue operating therefore cost will have to be incurred to ensure liquidity. |

The raising of capital finance whether committed or uncommitted, secured or unsecured must be approved, in advance, by the University Court. There are no restrictions on sources of funding with the appropriate funder being agreed following the necessary fund raising exercise taking into account refinancing risks and satisfying conditions set by the Scottish Funding Council (SFC) in the Financial Memorandum as follows:

An institution shall obtain prior written consent from the SFC before it undertakes a level of capital finance where:

1. Annualised costs of all capital finance (being the sum of the servicing and capital repayment costs of each loan or other arrangements spread evenly over the period of the relevant loan or arrangement) would exceed 4% of total income as reported in the last audited financial statements, or, of the estimated amount of total income for the current year if that is lower;
2. Security is given as part of the arrangement.

**7. Investment strategy**

|  |
| --- |
| The role of Finance & General Purposes Committee is to consider the corporate governance and other related implications of the University’s investments. As part of the University’s commitment to responsible investment, any investments held by the university should be ethically sound and a list of the investment categories which should not be held are shown below:   * **Armaments** |
| * **Tobacco** |
| * **Alcohol** |
| * **Gambling** |

Other categories to be included in the above list shall be reviewed by FGPC on an annual basis.

The Director of Corporate Resources shall also ensure that any legacies, gifts or endowments made to the University are administered and invested in accordance with any terms laid down by the donor.

**8. Delegated authority**

The authority to transfer funds to / from such short term investments requires authorisation from two signatories, one from List A (see below) and one from List B (see below). The Director of Corporate Resources, the Finance Manager and the Chief Operating Officer/Secretary are all authorised to provide telephone instructions for the movement of authorised fund transfers, where applicable.

List A – Director of Corporate Resources or Finance Manager

List B – Chief Operating Officer/Secretary or Principal

**9. Treasury management reporting**

An annual treasury management report is reported to the Finance & General Purposes Committee meeting post year end.

The Finance Department will retain full records to support treasury management decisions to demonstrate that reasonable steps were taken to ensure all issues relevant to the decisions were considered.

**10. Use of External Service Providers**

**Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers**

The University will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of the University, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

**Banking Services**

1. Name of supplier of service is the Clydesdale Bank.
2. Regulatory status – banking institution authorised to undertake banking activities by the FSA
3. The branch address is:

15 Academy Street, Inverness, IV1 1JN

Tel:- 08447 362616

1. Cost of service is variable depending on schedule of tariffs and volumes

**Clydesdale Bank** accounts are listed below.

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of Account** | **Type** | **Sort code** | **Account Number** |
| University of the Highlands & Islands (main a/c) | Current | 82-65-18 | 30568706 |
| UHI Charity Instant Access (sweep facility) \* | Savings | 82-65-18 | 80361028 |
| University of the Highlands & Islands | Savings | 82-65-18 | 40566872 |
| UHI Student Residences Equalisation Fund | Current | 82-65-18 | 00123193 |
| UNI High & Islands Childcare Fund | Current | 82-65-18 | 60570077 |
| University Highlands & Islands Childcare TIA | Savings | 82-65-18 | 70569101 |
| UNI Highlands & Islands Hardship Fund | Current | 82-65-18 | 10568510 |
| UNI High & Islands Hardship Fund | Savings | 82-65-18 | 60567412 |
| University of the Highlands & Islands | Current | Euro a/c | 4505252294500 |
| University of the Highlands & Islands | Current | Dollar a/c | 4505252294501 |
| UHI Trading Subsidiary: UHI Research & Enterprise Ltd | Current | 82-65-18 | 40330097 |
| UHI Trading Subsidiary: UHI Research & Enterprise Ltd | Savings | 82-65-18 | 90362032 |

\*At the end of each financial day any unexpected surplus funds are transferred to the Charity Instant Access account which is available from the University’s main bank. The balance on this account is instantly accessible if a University bank account becomes overdrawn.

**Consultants’/Advisers’ Services**

**Treasury Consultancy Services**

The University will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

1. The appointment of Capita Asset Services (Sector) as external treasury management consultants was approved by FGPC on 11 June 2012 (FG12-042). The appointment was from 1 August 2012 for a three year period (to 31 July 2015). Effective 9th September 2013, SECTOR changed its brand name to Capita Asset Services – Treasury Solutions. Their address is 40 Dukes Place, London EC3A 7NH Tel: 0871 664 6800
2. Regulatory status: investment adviser authorised by the FSA

**Credit Rating Agency**

The University receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant’s annual fee.

**11. Tendering and appointment of operational bank and treasury management consultants**

The University’s operational bank and treasury management consultant is selected through the normal tendering process.

**12. Money laundering**

The University is aware it is a legal responsibility of all persons and organisations in the UK to be aware of their personal responsibilities under the money laundering legislation, The Money Laundering Regulations 2007, Proceeds of Crime Act 2002 and Terrorism Act 2000.

The University is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving money laundering. Accordingly it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staffs involved in this are properly trained.

**13. Review of Policy**

The Treasury Management Policy was initially approved by FGPC in September 2012 (FG12-057). It was last reviewed and approved by FGPC in September 2017.