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Prepared by	A Williamson

## TREASURY MANAGEMENT POLICY

### 1.0 INTRODUCTION

- The purpose of this document is to define the College's treasury management activities as: "The management of the College'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."
- Edinburgh College 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 report of treasury management activities will focus on their risk implications for the College.
- Edinburgh College acknowledges that effective treasury management will provide support towards the achievement of its corporate and organisational 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.

### 2.0 SCOPE

- The College adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Codes of Practice (the Code), as described in Section 4 of that Code.
- Accordingly, the College will create and maintain, as the cornerstones for effective treasury management:-
  - a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities.
  - suitable Treasury Management Practices (TMPs), setting out the manner in which the College will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The contents of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this College. Such amendments will not result in the College materially deviating from the Code's key recommendations.
- The Executive Team and Board of Management (Audit Committee) will receive reports on its treasury management and activities, in the form prescribed in its TMPs.

- Edinburgh College delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Team and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the College's policy statement and TMPs.

### **3.0 LINES OF RESPONSIBILITIES**

- The Executive Team is responsible for the effective governance of this policy.
- The Director of Finance is responsible for managing this policy.
- The Head of Finance & MIS and relevant Finance staff are responsible for the effective operation of this policy and procedures.

### **4.0 KEY PRINCIPLES**

#### **Treasury Management Practices – TMPs**

##### **TMP1 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, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the College's objectives in this respect, all in accordance with the procedures set out in TMP6 Report Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out in the Practices to this document (pages 6-11).

**(a) Liquidity Risk Management**

The College will ensure it has adequate 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 achievements of its corporate and organisational objectives.

**(b) Interest Rate Risk Management**

The College will ensure that it protects itself adequately against the risk of fluctuations in the level of interest rates creating an unexpected or unbudgeted burden on the College's finances through regular review of interest rates available.

**(c) Exchange Rate Risk Management**

The College will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the College's finances by regularly reviewing exchange rate movements/fluctuations and assessing the impact and mitigating actions.

**(d) Inflation Risk Management**

The College will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the College as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve these objectives 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, exchange rates or inflation.

The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

**(e) Credit and Counterparty Risk Management**

The College will ensure that it protects itself against the risk of failure by a third party to meet its contractual obligations, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the College's capital or current (revenue) resources. The College regards a prime objective of its treasury management activities to be the security of its finances. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent contractual attitude towards organisations and students. It also recognises the need to have, and will therefore maintain, a formal counterparty contract in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

The English and Scottish clearing banks (Treasury Management Policy dated February 2013 to be updated annually) are:

Bank of England  
Bank of Scotland  
Barclays Bank  
Clydesdale Bank  
HSBC Bank  
Lloyds TSB Bank  
National Westminster Bank  
Royal Bank of Scotland  
Santander UK  
The Co-operative Bank

**(f) Refinancing Risk Management**

The College 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 College 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.

**(g) Legal and Regulatory Risk Management**

The College will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 *(e) credit and counterparty risk management*, it will ensure that there is contractual evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The College recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the College.

**(h) Fraud, Error and Corruption, and Contingency Management**

The College will ensure that it has identified the circumstances which may expose it so the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

**(i) Market Risk Management**

The College 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.

**TMP2 Best Value and Performance Measurement**

The College is committed to the pursuit of best value in its treasury management activities within the framework set out in its treasury management policy statement.

**TMP3 Decision Making and Analysis**

The College will maintain records of its key treasury management decisions for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

**TMP4 Approved Instruments, Methods and Techniques**

The College will undertake its treasury management activities by employing mainly those methods and techniques detailed in the Practices to this document, and within the limits and parameters defined in TMP1 Risk Management.

**TMP5 Organisation, Clarity and Segregation of Responsibilities**

The College 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 key treasury management decisions.

If and when the College intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.

The Director of Finance will ensure that there are clear written statements (per job descriptions) of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.

The Director of Finance will ensure there is proper documentation for all transactions, and that procedures exist for the effective transmission of funds.

The delegations from the Director of Finance in respect of treasury management are set out in the Finance section staff structure. The Director of Finance will fulfil all such responsibilities in accordance with the College's Policy Statement and TMPs.

### **TMP6 Reporting Requirements and Management Information Arrangements**

The College will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of key 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.

As a minimum, the Board of Management (Audit Committee) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- an annual report on the performance of the treasury management work, on the effects of the key decisions taken and a summary of transactions executed in the past year, and on any circumstances of non-compliance with the College's treasury management policy statement and TMPs.

The present arrangements and the form of these reports are detailed in the Practices to this document (TMP6 – page 9).

### **TMP7 Budgeting, Accounting and Audit Arrangements**

The Director of Finance will prepare, and the Executive Team will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the income and expenditure involved in treasury management activities.

The College 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 College 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 fulfilment of their roles, and that

such information and papers demonstrate compliance with external and internal policies and approved practices.

### **TMP8 Cash and Cash Flow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this College 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 TMP1 (a) *Liquidity Risk Management*.

### **TMP9 Money Laundering**

The College 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 tough restrictions on counterparties outlined in this policy should be more than sufficient to ensure that its Treasury management activity does not involve money laundering.

### **TMP10 Staff Training and Qualifications**

The College 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.

### **TMP11 Use of External Service Providers**

The College 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 provider 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 and details of the current arrangements are set out in the Practices to this document.

### **TMP12 Corporate Governance**

The College 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.

This, together with the other arrangements detailed in the Practices to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## **5.0 PRACTICES**

The College's treasury management practices currently relate to the following activities:

### **TMP1 Risk Management**

#### **(a) Liquidity Risk Management**

- The College's cash balances will not be in debit.
- The College does not have an overdraft facility.

#### **(b) Interest Rate Risk Management**

- The College will budget for income from interest by using a rate  $\frac{1}{2}\%$  below the rate achievable when the budget is set, in order to allow for adverse fluctuations in the market.
- The College will maximise its interest rate return where possible, without exposure to risk.

#### **(c) Exchange Rate Risk Management**

- The College will not place any investments which will directly expose it to exchange rate risk.

#### **(d) Inflation Risk Management**

- Inflation will be monitored on a regular basis. Any change to the annual rate of inflation in excess of  $\frac{1}{2}\%$  will be reported immediately to the Director of Finance so that the implications can be incorporated in the budget strategy.

#### **(e) Credit and Counterparty Risk Management**

- Lending be restricted to:
  - The English and Scottish clearing banks and subsidiaries.
  - The top building societies.
  - Other banks (with International Bankers Credit Assessment (IBCA) rating) as specified by the College, through the Director of Finance, acting under delegated powers.

#### **(f) Refinancing Risk Management**

- Any provisions relating to this area should be established before the College enters into any borrowing.

#### **(g) Legal and Regulatory Risk Management**

- On request, evidence of the College's powers/authorities will be provided to counterparties.

**(h) Fraud, Error and Corruption and Contingency Management**

- No investment will be placed without the authorisation of the Principal, Director of Finance, and approval from the Board of Management's Audit Committee.
- The Treasury Management Procedures notes will be followed in relation to investments, without exception.
- Payments will be made by on-line banking. In the case of system's failure, manual transfer forms should be used in an emergency.

**(i) Market Risk Management**

- The College will not make any investments where the capital value may fluctuate.

**TMP2 Best Value and Performance Measurement**

- The Revenue and Capital impact of all Treasury Management decisions will be reviewed by the Director of Finance throughout each financial year.
- Any likely variation from budgeted Treasury Management activity will be reported immediately to the Director of Finance or the Head of Finance & MIS so that any implications can be incorporated into the Budget Strategy.
- Tendering for Banking Services will be considered by the Director of Finance every 5 years, and if considered to be viable, will follow the processes detailed in the College's financial memorandum.

**TMP3 Decision Making and Analysis**

- Records to be kept:
  - Investment diary detailing cleared and uncleared balances for each of the College's accounts, payments, direct debit income and any other significant items of income and expenditure.
  - Cash flow history detailing each week's or month's expenditure and income, under main categories.
  - For each investment, if applicable, a separate file should be created, detailing principal invested, rate of interest, period of investment, borrower, borrower's banker and bank details and confirmation.
  - Investment Register detailing date of lending, borrower, interest rate, reference number, agreed term, date of maturity and amount invested.

**TMP4 Approved Methods and Techniques**

Investments will be restricted to:

- Short-term bonds
- Fixed deposits
- Deposits on call, 2 or 7 day notice

- Certificates of deposit.

### **TMP5 Organisation, Clarity and Segregation of Responsibilities**

The Director of Finance is the responsible officer in relation to treasury management activities. The Head of Finance & MIS has this responsibility by delegated authority.

The Head of Finance & MIS will review the College's cash balances on a daily basis and will arrange to place investments or transfer funds as appropriate, on authority from the Director of Finance.

In the absence of the Head of Finance & MIS, the Financial Accountant will undertake treasury management activities, with authorisation of those activities being provided by the Director of Finance.

### **TMP6 Reporting Requirements and Management Information Arrangements**

- An annual report will be presented to the Executive Team when it considers the budget detailing the strategy and plan to be pursued in the coming year. The report will detail anticipated income from externally managed funds, internally managed funds, and expected rate of return, alongside interest expected from other sources. The Director of Finance will then report these details to the Finance & General Purposes Committee.
- An annual report will be presented to the Executive Team before 30 September detailing treasury management activities during the financial year. The report will include:
  - Closing cash balances
  - Details of any investment activity during the year, which will include:
    - Borrower
    - Amount invested
    - Date invested
    - Rate
    - Number of days invested
    - Date to be repaid
    - Interest earned (during that financial year)
  - Circumstances of non-compliance with the College's Treasury Management Policy Statement and TMPs.

The Director of Finance will then report these details to the Finance & General Purposes Committee.

- The Head of Finance & MIS will inform the Director of Finance immediately it becomes likely that there will be any variation from expected target in relation to investment income.

### **TMP7 Budgeting, Accounting and Audit Arrangements**

- The Investment Income Budget will be prepared by estimating (with the aid of the cashflow forecast) levels and lengths of investments, along with anticipated

rates of return. These estimates will be shown clearly in the budget working paper files.

- The Investment Account, if appropriate, will be included in the financial ledger and will show clearly the loans made and the loans repaid, identifying principal and interest.
- The Treasury Management Policy Statement, TMPs, Clauses and Schedules will be made available for inspection by the College's auditors, along with Cashflow History and Forecasts, Investment Files, Investment Register and Treasury Management Reconciliations.

#### **TMP8 Cash and Cashflow Management**

- The Financial Accountant will re-analyse the College's cashbook on a monthly basis in order to maintain a cashflow history, and will use this to prepare and update cashflow forecasts/budgets to the end of the financial year on a monthly basis (as a minimum).
- The College's bank will notify the College upon repayment of investments by telephone or letter.

#### **TMP9 Money Laundering**

- Investments will only be placed with those organisations detailed in TMP1(e).
- The identity of the borrower will be confirmed as follows:
  - For borrowers (students paying by instalments), the borrower should be contacted and be required to provide their bank details to the College before the borrowing is agreed.
- A confirmation of deposit will always be received immediately or, failing this, within 7 days of the in-kind advance being made.
- Any suspicions in relation to this area will be reported immediately to the Director of Finance.

#### **TMP10 Staff Training and Qualifications**

Staff will participate in any training courses which are thought to be appropriate by the Director of Finance.

#### **TMP11 Use of External Service Providers**

This organisation 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 responsible officer, and details of the current arrangements are set out in the schedule to this document.

### **TMP12 Corporate Governance**

The annual report to the Executive Team, and the Audit Committee's reports to the Board of Management referred to in TMP6, will be open reports and therefore available for inspection by members of the public.

The Treasury Management Policy Statement and TMPs are available for public inspection on request.

### **6.0 SPECIFIC POLICIES/RELATED DOCUMENTS**

- Financial Regulations

### **7.0 EFFECTIVE DATE**

- This policy is effective from 20 February 2013 and supersedes all previous policies related to this subject. This policy will be reviewed every three years, or earlier if changes affect it in any way.