

Treasury Management Policy

February 2011

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Treasury Management Policy

1 Purpose

The College regards the identification, monitoring and control of risk to be critical in the measurement of its treasury management activities.

The College acknowledges that effective treasury management will provide support to the achievement of its strategic and operational targets.

The College is committed to the principles of achieving best value in treasury management and to employing suitable performance management technique within the context of effective risk management.

2 Scope

Treasury Management should be operated in relation to:

- The College's Strategic Plan.
- The revenue budget and capital programme.
- The Estate Strategy.
- Working capital requirement including debt collection and policy on creditor's payments including payroll.
- Cash flow forecasts.

3 Definitions

Perth College defines Treasury Management as:

The Management of all cash, debtors and creditors, money market investments and capital market transactions in connection with cash resources and funding requirements of the College, the control of the associated risks and the pursuit of optimum performance consistent with those risks.

CIPFA means Chartered Institute of Public Finance and Accountancy.

TMP means Treasury Management Practices.

4 Key Principles

- 4.1 Perth College in preparing its Treasury Management Policy has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the code) as described within that code.
- 4.2 CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations or other appropriate formal policy documents, the following 4 clauses:

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Clause 1 – The College confirms that:

- It has in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.
- One of its prime objectives is the effective management and control of risk.
- It has in place suitable measures to effectively monitor its performance.
- It supports the adoption of the clauses contained within the Code, and the adoption of a Treasury Management Policy Statement and will also aim to follow the recommendations contained within its Treasury Management Practices.

Clause 2 – Accordingly it will create and maintain:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities.
- Suitable Treasury Management Practices (TMPs) which set out the manner in which the College will seek to achieve its policies and objectives and manage and control its activities.

Clause 3

- The College's Finance Committee will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual review report and an annual strategy plan in the form prescribed in its TMPs.

Clause 4

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

5 Responsibilities

- 5.1 The College delegates responsibility for the implementation and monitoring of its treasury management activities to the Finance Committee, and for the execution and administration of treasury management decisions to the College Director of Finance.
- 5.2 The Finance Committee is responsible for approving the Treasury Management Policy. This will require compliance with funding body rules regarding approval for any secured or unsecured loans that go beyond the general consent levels set out in the financial memorandum. The Finance Committee has a responsibility to ensure implementation, monitoring and review of such policies.

- 5.3 All matters concerning borrowing, investment or financing (within policy parameters) shall be delegated to the College Director of Finance, and an appropriate approval system set up through the College Principal, as Accountable Officer. All borrowing shall be undertaken in the name of Perth College or one of its subsidiary companies and shall conform to any relevant funding body requirements. The College Director of Finance and his staff are required to act in accordance with CIPFAs Code of Practice and to follow the operational Treasury Management Procedures as laid down in the College Financial Procedure Manual.

Borrowing money, granting of securities or giving guarantees or indemnities in connection with such borrowing is a matter reserved for the Board of Management and such requires their approval.

- 5.4 Quality approval check of the policy is the responsibility of the Quality Manager who will arrange for the Policy to be posted on the intranet.

5.5 Key Treasury Management Practices

In line with Section 7 of CIPFAs Treasury Management in the Public Services: Code of Practice, the following TMPs have been adopted by the College.

5.5.1 TMP1: Risk Management

The College 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 organisation's objectives in this respect, all in accordance with the procedures set out in **TMP6**: "Reporting Requirements and Management Information Arrangements".

- **Liquidity risk management** - This College 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 achievements of its strategic and operational objectives.
- **Interest rate risk management** - This 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.
- **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.
- **Inflation risk management** - 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.

- **Credit and counter-party risk management** - The College will ensure that it protects itself against the risk of failure by a third party to meet its contractual obligations to the organisation 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 organisation's capital or current (revenue) resources. The College 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 counter-party 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 referred to in **TMP4**: "Approved Instruments, Methods and Techniques". It also recognises the need to have, and will therefore maintain, a formal counter-party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.
- **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 counter-parties 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.
- **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 counter-party policy under **TMP1**: "Risk Management – Credit and Counter-party", it will ensure that there is evidence of counter-parties' powers, authority and compliance in respect of the transactions they may affect 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.

- **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.
- **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.

5.5.2 **TMP2: Performance Measurement**

The College is committed to the use of performance methodology in support of its aims, within the framework set out in its treasury management policy statements. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the College's strategic and operational objectives.

5.5.3 **TMP3: Decision Making and Analysis**

The College 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.

5.5.4 **TMP4: Approved Instruments, Methods and Techniques**

The College will undertake its treasury management activities by employing only those instruments, methods, and techniques within the limits and parameters defined in **TMP1: "Risk Management"**.

5.5.5 **TMP5: Organisation, Segregation of Responsibilities, and Dealing Arrangements**

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 treasury management decisions, and the audit and review of the treasury management function. If and when the College intends, as a result of lack of resources or other circumstances, to depart from these principles, the College 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 College 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. The College 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 College Director of Finance will fulfill all such responsibilities in accordance with the College's policy statement and TMPs.

5.5.6 **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 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 Finance 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 function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the College's treasury management policy statement and TMPs.

5.5.7 **TMP7: Budgeting, Accounting and Audit Arrangements**

The College Director of Finance will prepare, and the College will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The College Director of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6:**

"Reporting Requirements and Management Information Arrangements".

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 fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

5.5.8 TMP8: Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the College will be under the control of the College 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 College Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with **TMP1**: "Risk Management - Liquidity".

5.5.9 TMP9: Money Laundering

The College is alert to the possibility that it may become the subject to 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 counter-parties and reporting suspicions, and will ensure that staff involved in this, are properly trained.

5.5.10 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 College Director of Finance will recommend and implement the necessary arrangements.

5.5.11 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.

5.5.12 **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.

6 **Linked Policies/Related Documents**

7 **Relevant Legislation**

This policy will be reviewed in February 2012.

Appendix

Treasury Management Policy

Investment Range

The following organisations and range of investments are considered appropriate for College funds to be invested:

- UK Clearing Banks.
- Leading UK Building Societies.
- Otto UK based financial institutions.
- Fixed Term Deposits.
- Limits on any one Investment £1.5m.

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