

The Robert Gordon University

Treasury Management

Policies and Procedures

February 2010

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Treasury Management

Policies and Procedures

1. Introduction

This document sets out The Robert Gordon University's treasury management policies and procedures as agreed by the Board of Governors. They apply to all treasury management activities, as defined in section 3 below, undertaken by The Robert Gordon University or by any of its controlled subsidiary undertakings.

2. Purpose

The purpose of this document is to:

- develop and maintain firm foundations and clear objectives for the University's treasury management activities
- emphasise the overriding importance of effective risk management as the foundation for all treasury management
- encourage the pursuit of value for money in treasury management and to promote reasoned use, development and appreciation of appropriate and practical measures of performance
- assist those involved in the review and regulation of treasury management in the University, particularly those involved in audit or governance

3. Definition

The University defines its treasury management activities as, " The management of the University'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"

4. Policy Statements

4.1. Legality, Compliance and Ethics

- Treasury management activities will abide by the legal framework provided by the Robert Gordon University (Scotland) Order of Council 2006.
- Treasury management activities will comply with the CIPFA Code of Practice, Treasury Management in the Public Services.
- In accordance with the principles of good corporate governance, University treasury management activities will be undertaken with openness, transparency, honesty, integrity and accountability.

4.2. Risk Management

- The successful identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the University's treasury management activities will be measured.
- Treasury management activities will be undertaken using only those instruments, methods and techniques that have been duly approved by the University.
- Procedures will be maintained for verifying and recording the identity of counterparties so that the University is in a position to report suspicions relating to money laundering, fraud and other crimes.

4.3. Value for Money

- Value for money will be pursued in all treasury management activities.

4.4. Organisational, Accounting and Reporting Arrangements

- Governance of Treasury activities will be exercised by the University's Investment Panel under authority delegated to it by the Finance and General Purposes Committee of the Board of Governors.
- Treasury management activity will be structured and managed in a fully integrated manner and there will be, at all times, clarity of responsibilities.
- Regular reports will be prepared and considered on the implementation of treasury management activities.
- Accounting for treasury management activities will be in accordance with generally accepted standards.
- All staff involved in the treasury management function will be appropriately trained and thus fully equipped to undertake their duties and responsibilities.

(Further policy guidance on these areas is provided in Annex 1)

5. Procedures

5.1. Organisational Arrangements

The University considers it essential, for the purposes of the effective control and monitoring of its treasury activities, for the reduction of 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 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 University 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 and the implications properly considered and evaluated.

The University delegates responsibility for the establishment and monitoring of its treasury management policies and practices to the Finance and General Purposes Committee and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the University's policy and procedures. A summary of delegated responsibility is provided in Appendix 1 to this document.

The Director of Finance will ensure there are clear written statements of the responsibilities of each post engaged in treasury management, and there are arrangements for absence cover. The present arrangements are detailed in Appendix 1 to this document.

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

5.2. Approved Instruments and Credit Limits

The overriding principle guiding all treasury management activities is to control risk. Consequently the University will only employ those instruments, methods and techniques detailed herein and within the limits and parameters set out in Annex 1 on Risk Management.

Moreover the University will only invest monies with an approved bank or other financial institution up to specific credit limits as is detailed in the Schedule of Approved Credit Limits in force from time to time and approved by the Investment Panel.

Investment of Cash Balances

The investment instruments that may be used are the securities and money market instruments listed below:

Instruments	Managed In House		Managed Externally
	Periods up to 6 months	Periods of 3-24 months	Periods up to 12 months*
Deposits with RGU's Bankers	✓	✓	✓
Deposits with Other Approved UK Clearers	✓	✓	✓
Deposits with Other Approved Banks		✓	✓
Deposits in Collective Investment Funds			✓ [#]
Certificates of Deposits issued by approved Banks or Building Societies		✓	✓
Bills of Exchange Accepted by Approved Banks		✓	✓
Treasury Bills		✓	✓

(* Exceptionally the period may be extended to 24 months with the approval of the Director of Finance)

([#] Period of investment based on average of holdings)

Managers, in-house or external, have no power to

- enter into/acquire options or futures contracts
- commit the University to supplement the funds in the portfolio without prior consent either by borrowing or by committing to a contract which may require the supplement of such funds
- commit the University to underwrite securities
- invest directly in excess of the Nominal Limit with counterparties included in the University's current Credit List

External Fund Managers only have the power to:

- invest on the University's behalf into their own in-house collective investment funds but only with explicit permission from the University.
- invest with counterparties not on the current University Credit List provided they constitute a minor holding (<10%) within a collective investment fund.

The terms under which the external cash fund manager manages surplus cash on behalf of the University are set out in the Client Agreement, from time to time reviewed and agreed by the Investment Panel.

Investment of Long Term Funds

The University's practice is to appoint a professional Investment Manager to manage funds which are available for long term investment.

The investment instruments, methods and techniques which the manager may use in managing the investment portfolio are stated in the Discretionary Management Agreement (DMA) between the University and the appointed manager. Approved instruments normally include equities (UK and overseas) and bonds (UK and overseas) and may be in individual companies or collective investment vehicles, e.g. unit and investment trusts and common investment funds for charities. (The University's policy is not to hold direct investments in tobacco stocks).

The DMAs also manage risk by giving control ranges for the minimum and maximum percentage of the portfolio the manager may invest in particular classes. Current control ranges are provided in Appendix 2.

5.3. Reporting and Management Information

The Director of Finance will ensure that regular reports are prepared and considered on the implementation of the University's 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 management function.

The University will make the following internal reports to the Board of Governors.

Finance and General Purposes Committee

The Director of Finance will present periodic reports and financial forecasts at least annually to the Committee. These reports will include an annual forecast of surplus funds and loan repayment requirements for the coming year and a strategy for funding the University's capital expenditure proposals and for the investment of surplus cash during the period.

In preparing these reports the Director of Finance will have regard to:

- The maintenance of a stable financial position and the need to ensure the availability of resources to meet commitments and uncertainties inherent in the planning process and the timing and amount of cash flows.
- The current level and future forecasts of interest rates.
- The proportion of borrowing which is subject to variable interest rates
- Policies contained in other documents, including:
 - the strategic plan
 - the revenue budget and capital programme
 - the estates strategy
 - the risk management strategy
- Working capital management
- The aggregate of all funds, loans and accounts operated by the University

The Director of Finance will present an Annual Performance Report. This report will look at the performance of the treasury function in the year just ended. It will include:

- A commentary on treasury operations and their revenue effect
- The risk implications of decisions taken and transactions executed
- Performance report including KPIs and benchmark comparisons
- Updated counterparty list and credit limits for approval.

The Director of Finance will prepare a report for the Finance and General Purposes Committee for each proposed capital borrowing, which will include:

- purpose of and justification for borrowing
- borrowing requirement supported by cash flow forecasts
- proposed lender
- interest rate structure and margin
- main terms and covenants
- arrangement fees
- security arrangements
- comparison with alternatives
- compliance with approved borrowing strategy
- legality
- arrangements for compliance with the Financial Memorandum with the Scottish Funding Council
- any other relevant matters

In considering the provision of security for capital raised for new projects the Director of Finance will have regard to the level of security required for the project, the value of assets already held as security for borrowing, the requirements of the Financial Memorandum with the Funding Council, any statutory or other restrictions and the maximum level of assets that should be held as security without risking the overall stability of the University.

The Finance and General Purposes Committee will consider potential sources of finance for recommendation to the Board of Governors on each occasion. These may include:

- banks
- building societies
- bond issues
- financial intermediary
- leases

The Director of Finance will also report to the committee if and when significant departures from agreed policies and procedures or budget overspends occur or there is an urgent need to seek approval to amend current treasury management policies and procedures or to the list of counterparties or their limits.

Investment Panel

The Panel will receive regular reports from each appointed investment manager:

- identifying the investments held in the portfolio and showing their cost and current market value
- detailing and justifying the transactions occurring in the period showing acquisition cost, disposal proceeds and the profit or loss, if any, on the transaction
- showing the investment performance/asset allocation of the fund and comparing it with the benchmark fund and with the investment objectives set for the fund
- commenting on the investment outlook and on how this will influence their management decisions

- suggesting, if appropriate, any changes to investment strategy which in their opinion would benefit the fund

Reports are required at least annually or, if manager's funds are more than £5m, quarterly.

Management Information Reports

The Deputy Director of Finance will prepare for the Director of Finance and the Vice-Principal (Planning and Resources) a quarterly report on treasury management operations. This will show:

- the effects of decisions taken and transactions executed in pursuit of treasury management policies
- the implications of changes, particularly budgetary, resulting from regulatory, economic, market and other factors affecting treasury management
- the performance of the investment managers and the treasury management function
- any extraordinary items
- updated forecasts of the budgetary effect of treasury management activities

5.4. Accounting and audit arrangements

The University 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 University will ensure that its auditors and those charged with statutory 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.

5.5. Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University 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 basis.

The University recognises that the regular and timely preparation of cash flow projections provides a sound framework for effective cash management and that effective management of working capital contributes positively to cash flow.

Cash Flow Forecasts

The University will prepare cash and cash flow management forecasts on a regular and timely basis so as to be able to determine

- whether the minimum acceptable levels of cash balances plus short term investments may be breached and the extent and duration of any such breach
- the adequacy (or otherwise) of standby/overdraft facilities or contingency arrangements

- the optimum arrangements to be made for investing and managing surplus cash

The cash and cashflow forecasts will take the form of:

- Annual forecasts for the University's current planning period, generally 5-8 years
- Monthly forecasts for a 3 year rolling period
- Daily forecasts prepared each Thursday for the week ahead

Liquidity will be maintained to allow the University to meet its financial obligations as they fall due and only cash which is surplus to working capital requirements being invested. As a safety measure the University will retain a minimum level of £5m of liquid funds.

The portfolio of invested cash will be balanced by spreading surplus cash across approved counterparties and over varying timescales taking into account future cash needs and the maturity of existing investments.

Management of Working Capital

The University manages its working capital to benefit its cash flow. In particular:

- debt is managed so that income is collected within agreed credit periods. A range of policies and procedures (dealing with issues such as the giving of credit, the payment terms offered to customers, debt monitoring and sanctions taken against customers) have been developed to help achieve this.
- income is banked promptly. The University offers and actively promotes the use of electronic payment facilities e.g. direct debit, credit card, on line payment, wherever this is practical. Payments received in cash or by postal remittance are banked promptly in the University bank account.
- creditors payments are monitored and managed. Payment terms are agreed with suppliers which provide for a credit period, normally one month, after supply and the payment of suppliers' invoices is managed so that payment is made at, but not before, the end of the credit period. Urgent payments are made more quickly where adherence to the standard payment arrangements would be detrimental to the University's interest.
- regular reconciliations of the University's bank accounts and invested funds are prepared and reviewed by senior staff.

5.6. Staff Training and qualifications

The University 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.

6. Appendix 1: Delegated Responsibilities

The University recognises the importance of a clear division of responsibilities, as far as is practical with limited resources and has designed responsibilities for the treasury management function as follows:

The Board of Governors has responsibility for setting treasury management policy and strategy and for overseeing the system of financial control and administration. The Board has delegated responsibility for the execution and administration of its treasury management decisions to the Director of Finance.

Board of Governors

The Board of Governors has specifically reserved to itself:

- The approval of any amendment to the University's financial regulations,
- The approval of all borrowing for periods in excess of one year, and

The Finance and General Purposes Committee has delegated to it:

- The approval of any amendments to the University's treasury management policy and procedures
- The approval of the terms and conditions of any proposed borrowings, taking account of the justification and the impact of the borrowing, any covenants and provision of security on the overall stability and financial health of the University
- The approval of the investment of University funds for periods of more than two years
- The approval of the selection or retention of external service providers and the terms of their appointment

The Investment Panel is a sub committee of the Finance and General Purposes Committee consisting of the Convenor, other members of the Committee, the Principal and Executive Director, Planning and Resources, with delegated authority to

- Consider and make recommendations on the appointment or retention of external managers and the terms of their appointment
- Meet appointed external managers at least once a year to exchange views and consider revisions to investment strategy
- Monitor performance of the managers and the investment portfolio and report on this to the Finance and General Purposes Committee recommending change where appropriate
- Examine the "value for money" being obtained from each of the external managers by informal benchmarking and conduct a formal market testing exercise on a five to seven year cycle

Responsible Officers

Director of Finance

The Director of Finance will be responsible for:

- Preparing annual and other reports on treasury management for consideration by the Finance and General Purposes Committee
- Submitting budgets and budget variations to the Finance and General Purposes Committee
- Receiving and reviewing management information reports and reviewing and reporting on the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function
- Liaising with internal and external audit
- Preparing a report to Finance and General Purposes Committee for each proposed capital borrowing
- Negotiating terms and conditions for capital finance for approval by the Board of Governors

Depute Director of Finance

The Depute Director of Finance acts as the University's Treasury Manager and in this capacity is responsible for:

- Execution of transactions
- Adherence to agreed policies and practices on a day to day basis
- Maintaining relationships with third parties and external 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

Organisation

The organisation of responsibilities as they relate to particular treasury management activities is set out in the following schedule:

Activities	Organisation of Responsibilities		
	Approved by	Proposed by	Execution/ Administration by
<p>A-STRATEGY,POLICY AND PRACTICES</p> <p><i>1)Treasury management policy statement and practices</i></p>	FGPC	VP (P&R) or Director of Finance	Director or Deputy Director of Finance
<p>B-TREASURY MANAGEMENT ACTIVITIES</p> <p>B1-BANKING</p> <p><i>1)Opening and closing bank accounts</i></p> <p><i>2)Bank account mandates</i></p>	<p>VP (P&R) or Director of Finance</p> <p>VP (P&R) or Director of Finance</p>	<p>Director or Depute Director of Finance</p> <p>Director of Finance or Depute Director of Finance</p>	<p>Depute Director of Finance or Finance Assistant</p> <p>Depute Director of Finance</p>

Activities	Total Limit	Approved Institutions/Limits
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Organisation of Responsibilities		
Approved by	Proposed by	Execution/ Administration by

<p>B 2-INVESTMENT</p> <p>1-SHORT TERM CASH BALANCES</p> <p>1 A-Sterling Cash Balances</p> <p><u>Managed In House</u></p> <p><i>1) Surplus Current Account Balances</i></p> <p>Cash balances held to meet the University's short term operational needs. The cash may be retained in the University's current bank account or, to the extent that it is surplus to immediately requirements, invested for periods not exceeding 6 months</p>	£5m at any time	<p>University's Banker, Other UK Clearers with S&P rating of A1+ (Institutional limits per approved credit list)</p> <p>Approved instruments listed in section 5.2</p>
<p><i>2) Medium Term Surpluses Available for Direct Investment</i></p> <p>This is cash surplus to the University's medium term (6-24 months) needs. The direct investment route is only used when it results in a better investment return than is available from an investment of comparable risk made via the external cash manager.</p> <p>Investments of up to £3m in aggregate at any time</p>	£15m at any time	<p>The institutions and limits are set out in the approved credit list. Institutions require a S&P rating of A1+</p> <p>As per approved instruments list</p>

Depute Director of Finance – periods up to 1 month		Finance Assistant/Cashier
Director of Finance – periods up to 3 months	Depute Director of Finance	Depute Director of Finance/ Finance Assistant/ Cashier
Director of Finance	Depute Director of Finance	Depute Director of Finance/ Finance Assistant/ Cashier

Activities			Organisation of Responsibilities		
			Total Limit	Approved Institutions/Limits	Approved by
Investments of between £3-10m in aggregate at any time Investments of between £10-15m in aggregate at any time			Finance Director with counter authorisation by VP (P & R) Finance Director and VP (P & R) with counter authorisation of either the Principal or Senior Vice Principal	Depute Director of Finance Depute Director of Finance	Depute Director of Finance/ Assistant/ Cashier Depute Director of Finance/ Assistant/ Cashier
<p><u>Externally Managed</u></p> <p>3) <i>Cash Managed on behalf of RGU by an External Cash Manager</i></p> <p>These funds are surplus to the University's current operational cash needs. The appointed manager may invest the cash for various periods, generally not exceeding 12 months. The University may recall all or some of the funds at short notice.</p> <p>Investment strategy and cash manager's terms & conditions</p> <p>Maturity profile of investments held</p>	No limit	<p>The institutions and limits are set out in the approved credit list. Institutions require a S&P rating of A1+</p> <p>The Discretionary Management Agreement with the appointed Manager sets out the permitted investments</p>	Investment Panel recommendation to Finance & GP Committee Cash manager utilising information provided by University	Director or Depute Director of Finance Depute Director of Finance	Depute Director of Finance/ Finance Assistant Cash Manager

Activities			Organisation of Responsibilities		
			Approved by	Proposed by	Execution/ Administration by
	Total Limit	Approved Institutions/Limits and Instruments			
Transfer/Recall of Funds to/ from appointed cash manager			Director of Finance's Scheme of Delegation (Note 1)	D. Director of Finance/ Finance Assistant	Depute Director of Finance/ Finance Assistant/ Cashier
<p>1 B-Foreign Currency Balances</p> <p>The University has US\$ and euro bank accounts to facilitate receipts and payments in these currencies. In compliance with its policy to avoid exposure to exchange rate fluctuations, foreign currency balances are transferred into sterling except to the extent that they are required to fund future payments in that currency over the next (approximately) 3 months.</p> <p>Convert Foreign Currency Balances to US \$ Sterling</p> <p style="padding-left: 150px;">Euro</p> <p style="padding-left: 100px;">Sell or Buy Currencies</p>	No Limit	University's Banker University's Banker University's Banker Other UK Clearers Alliance & Leicester	As per Director of Finance's scheme of Delegation (Note 1)	D. Director of Finance/ Finance Assistant	Finance Assistant/ Cashier
Hedge currency exposures	£1m \$1m E1m	University's Banker Other UK Clearers Alliance & Leicester	As per Director of Finance's scheme of Delegation (Note 1)	D Director of Finance & Finance Assistant(up to £50k),	Finance Assistant/Depute Director of Finance
	>£1m >\$1m >E1m	University's Banker Other UK Clearers Alliance & Leicester	VP (P&R) or Director of Finance	Director or Deputy Director of Finance	Deputy Director of Finance or Senior Finance Assistant
			VP (P&R) and Director of Finance	Director or Deputy Director of Finance	Deputy Director of Finance or Senior Finance Assistant

Activities			Organisation of Responsibilities		
2-LONG TERM FUNDS					
<p>2 A-The Robert Gordon University Fund</p> <p>This is the investment portfolio for University funds which are surplus to the University's medium term requirements. The portfolio is managed by an external manager (Baillie Gifford) and invested in UK and overseas equities and bonds.</p>	No Limit	The Discretionary Management Agreement with the appointed Manager sets out the permitted investments			

	Total Limit	Approved Institutions/Limits and Instruments	Approved by	Proposed by	Execution/ Administration by
Investment strategy and manager's terms & conditions			Finance & GP Committee on recommendation of the Investment Panel	Director of Finance	Depute Director of Finance/Finance Assistant
Transfer/Recall of Funds to/ from appointed manager			Director of Finance's Scheme of Delegation (Note 1)	Depute Director of Finance	Depute Director of Finance/ Finance Assistant/ Cashier
<p>2 B-RGIT Educational Development Fund</p> <p>This is the investment portfolio of the RGIT Educational Development Trust. The portfolio is managed by an external manager (Aberdeen Private Wealth Managers) and invested in UK and overseas equity</p>	No Limit	The Discretionary Management Agreement with the appointed Manager sets out the permitted investments			
Investment strategy and manager's terms & conditions			Trustees on the recommendation of the Investment Panel	Director of Finance	Depute Director of Finance/Finance Assistant
Transfer/Recall of Funds to/ from appointed manager			Director of Finance's Scheme of Delegation (Note 1)	Depute Director of Finance	Depute Director of Finance/ Finance Assistant/ Cashier

Activities			Organisation of Responsibilities		
<p>2 3-ENDOWMENT FUNDS</p> <p>There are two endowment fund investment portfolios managed by an external manager (UBS Wealth Management).The general endowment fund is invested in UK and overseas equities and bonds, the Total endowment fund is invested in government bonds (gilts).</p> <p style="text-align: center;">Investment strategy and manager's terms & conditions</p>	No Limit	The Discretionary Management Agreement with the appointed Manager sets out the permitted investments	Finance & GP Committee on the recommendation of the Investment Panel	Director of Finance	Depute Director of Finance/Finance Assistant

	Total Limit	Approved Institutions/Limits and Instruments	Approved by	Proposed by	Execution/ Administration by
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<p style="text-align: center;">Transfer/Recall of Funds to/ from appointed manager</p> <p>3 BORROWING</p> <p><i>1) Short term Overdraft Facilities</i></p> <p>The University manages its cash flow to avoid, as far as is practical, overdrawing its bank account. The University has an overdraft facility which can be utilised if necessary.</p> <p style="text-align: center;">Negotiating terms of overdraft facilities</p>	£1m at any time	University's Banker	Director of Finance's Scheme of Delegation (Note 1)	Depute Director of Finance	Depute Director of Finance/ Assistant/ Cashier
			Director of Finance	Depute Director of Finance	Depute Director of Finance/ Finance Assistant

<p><i>2) Capital Leases</i></p> <p>The University enters into capital lease for the procurement of equipment or other assets.</p>	<p>No limit</p>		<p>Director of Finance up to £0.5m. Board of Governors over £0.5m.</p>	<p>Director of Finance or Depute Director of Finance</p>	<p>Depute Director of Finance/ Finance Assistant</p>
<p><i>3) Long term Loans -New Loans and Refinancing of Existing Loans</i></p> <p>The University may borrow long term to fund major building expenditure or other projects. The University may refinance existing loans to take advantage of favourable market conditions.</p>	<p>No limit</p>		<p>Board of Governors on recommendation by FGPC</p>	<p>Director of Finance</p>	<p>Depute Director of Finance/ Finance Assistant</p>

Note 1

Director of Finance's Scheme of Delegation

The scheme of delegation for approval of expenditure is:

<u>Expenditure</u>	<u>Authorisation Requirement</u>	<u>Authorisers</u>
Up to £5k	One authoriser	Senior Finance Assistant (Treasury) or Senior Financial Accountant
£5k-£20k	Two authorisers	Senior Finance Assistant (Treasury) or Senior Financial Accountant plus Depute Director of Finance or Group Financial Controller
£20k-£2.5m	Two authorisers	From Vice Principal (P&R), Director of Finance, Depute Director of Finance and Group Financial Controller
>£2.5m	Two authorisers	Vice Principal (P&R) or Director of Finance plus Depute Director of Finance or Group Financial Controller

7. Appendix 2: Control Ranges

Current Control Ranges

	Equities		Bonds		Cash
	UK	Overseas	UK	Overseas	
The RGU Fund *	19% - 29%	16% - 58%	28% - 52%	0% - 5%	0% - 10%
The RGU Endowment Funds					
- General Endowments Fund	38% - 58%	22% - 42%	10% - 30%	-	***
- Total Bursary Fund	-	-	100%	-	-
The RGIT Ed Dev Trust Fund **	31% - 41%	11% - 39%	5% - 40%	0% - 5%	0% - 10%

* The maximum equity investment is 70% the minimum 50%

** The maximum equity investment is 70%

*** Included in UK Bond range

8. Annex 1: Policy Guidance

Legality, Compliance and Ethics

Governing Document

Under the terms of The Robert Gordon University (Scotland) Order of Council 2006, the Governing Body of the University is empowered, inter alia, to:

- Acquire, hold and dispose of any of the undertakings, rights, assets or liabilities of the University;
- Buy, hold, lease, construct and sell any heritable or moveable property (including stocks, shares, loans and intellectual property rights) and to borrow and to give and take security of all types;
- Invest University monies and assets as it sees fit.

In exercising these powers, the Board of Governors must have regard to the Financial Memorandum between the Scottish Funding Council and the University

CIPFA Best Practice

The Chartered Institute of Public Finance and Accounting (CIPFA) published a Code of Practice providing guidance to public service organisations, including universities, on the conduct of their treasury management activities. CIPFA recommend that all public service organisations formally adopt this Code of Practice as part of their regulations.

The Robert Gordon University (the University) formally adopts the CIPFA code, and in particular the following four clauses from the Code:

- The University adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 4 of that code.
- Accordingly, the University 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 (procedures), setting out the manner in which the University will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and procedures will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where amendments will not result in the University materially deviating from the Code's key recommendations.

- The Board of Governors will receive reports on the University's treasury management policies, practices and activities, including as a minimum, an annual

strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its procedures.

- The University delegates responsibility for the establishment and monitoring of its treasury management policies to the Finance and General Purposes Committee, and for execution and administration of treasury management policies and procedures to the Director of Finance, who will act in accordance with the organisation's policy statement and procedures.

Corporate Governance

The University is committed to the pursuit of good corporate governance in relation to all of its business and services and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function will be undertaken with openness and transparency, honesty, integrity and accountability.

The University has adopted and implemented the key recommendations of the CIPFA Best Practice Code. This together with the other arrangements detailed in the appendices to this document is considered vital to the achievement of proper corporate governance in treasury management, and the Finance Director will monitor and, if necessary, report to enable an assessment of the effectiveness of these arrangements.

Risk Management

The main treasury risks and the University's risk management objectives for each are listed below. The arrangements through which the University seeks to ensure compliance with the risk management objectives are set out in the table at the end of this Appendix.

Liquidity Risk Management

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/service objectives.

Interest Risk Management

The University will manage its exposure to fluctuations in interest rates with a view to containing costs or securing interest revenues, while maintaining the security of 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.

Exchange Rate Risk Management

The University will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. The University will retain funds in currencies only to the extent that payments are 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 degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level of exchange rates.

Inflation Risk Management

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

Credit and Counterparty Risk Management

The University regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly it will ensure its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited. It also recognises the need to have, and will therefore maintain, a formal counterpart policy in respect of those organisations from which it may borrow, or with which it may enter into other financing arrangements.

Refinancing Risk Management

The University will ensure 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 University as can reasonably be achieved in 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.

Legal and Regulatory Risk Management

The University 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. It will ensure that there is evidence of counterparties' power, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

Fraud, Error and Corruption and Contingency Management

The University will ensure 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 it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Market Risk Management

The University will seek to ensure that its treasury management policies and procedures 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.

Risk Management

Risk	Management and Control
<p><i>1-Liquidity Risk</i></p> <p>The risk that cash will not be available when it is needed, that ineffective management of liquidity creates unbudgeted costs, and the University's business/service objectives will be thereby compromised.</p>	<ul style="list-style-type: none"> - Effective cash and cash flow forecasting and monitoring system which identifies the extent to which the University is exposed to the effect of potential cash flow variations and shortfalls. - The University's policy is to retain cash balances, on current account and short term investment, of up to £5m at any one time to meet any cash need arising from the day to day operations of the University. - The Director of Finance has authority to arrange short-term overdraft facilities with the University's bankers.
<p><i>2-4 Interest Rate, Exchange Rate and Inflation Rate</i></p> <p><i>2-Interest Risk</i></p> <p>The risk that fluctuations in the level of interest rates create an unexpected or unbudgeted burden on the University's finances against which the University has failed to protect itself adequately.</p> <p><i>3-Exchange Rate Risk</i></p> <p>The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the University's finances against which the organisation has failed to protect itself adequately.</p>	<ul style="list-style-type: none"> - Reliable and informed sources of information on the likely future course of interest rates and interest rate structures, exchange rates and inflation to inform the University's budgeting forecasting processes and to Enable an understanding of the extent to which movements in these may impact on the University. - Exposure to interest rate fluctuations managed with a view to containing costs, or securing interest revenues, while maintaining the security of the invested funds. - prudent use of approved financing and investment instruments, methods and techniques primarily to create stability and certainty while at the same time maintaining sufficient flexibility to take advantage of potentially advantageous changes in the level or structure of interest rates. - Contracting whenever practical with students/clients/suppliers on terms which require all payments made to or by the University to be in £ sterling. - The University will hold foreign currency balances only to the extent required to fund expected future, normally within a 3 months timeframe, payments in the same currency. Excess foreign currency balances are converted at best rates into sterling at the earliest opportunity. - The Director of Finance has authority to buy, sell and hedge currency exposures through approved financial institutions.

<p><i>4 Inflation Risk</i></p> <p>The risk that prevailing rates of inflation cause an unexpected or unbudgeted burden on the University's finances, against which the University has failed to protect itself adequately</p>	<ul style="list-style-type: none"> - The Director of Finance is responsible for monitoring current actual and future expected interest rates.
<p><i>5- Credit and Counterparty Risk</i></p> <p>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 current resources.</p>	<ul style="list-style-type: none"> - The Director of Finance is responsible for monitoring the credit standing of counterparties. If there is any reason to believe a third party's credit standing is impaired then the Director of Finance may apply lower limits, remove the third party from the University's credit list or other records of credit worthiness and/or take other appropriate action. Any material change in the standing of an approved counterparty is reported to the Finance and General Purposes Committee. - Funds are invested with financial institutions on the University's Approved Credit List up to the limits shown. The Credit List is confined to counterparties carrying a rating of A1 or better from one of the recognised credit agencies (The University currently uses Standard & Poor and Moodys). The University's Credit List is approved annually by the Finance & General Purposes Committee. The current Credit List is attached as an addendum - The Director of Finance conducts appropriate investigations into the counter-party risks associated with proposals for borrowing, capital, project or partnership financing and reports his findings to the Board of Governors.
<p><i>6- Refinancing Risk</i></p> <p>The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the University for these refinancing, both capital and current (revenue) and/or that the terms are inconsistent with prevailing market conditions at the time.</p>	<ul style="list-style-type: none"> - The Director of Finance maintains reliable records and forecasts of the terms and maturities of the University's borrowings, capital, project and partnership funding to allow it to plan the timing of its refinancing. <p>The University negotiates, structures and documents all its borrowings, private financing and partnership arrangements and manages the maturity profile of the monies raised, 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 at the time.</p> <ul style="list-style-type: none"> - The University actively manages its relationship with its counterparties in these transactions in such a manner so as to achieve its refinancing objectives and to avoid over reliance on any source of funding. - The Board of Governors specifically reserves to itself the approval of all borrowing, private financing and partnership arrangements.
<p><i>7 Legal and Regulatory Risk</i></p> <p>The risk that the University 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 the University suffers losses accordingly.</p>	<ul style="list-style-type: none"> - The Robert Gordon University (Scotland) Order of Council 2006 empowers the Governing Body of the University to:- <ul style="list-style-type: none"> a) lend, borrow or raise money and to give security or guarantees for the payment of money or the performance of obligations, b) buy, sell, lease property, and

	<p>c) invest monies in investments and securities approved by the Governing Body and to dispose of such investments. In exercising these powers Governors have regard to the Financial Memorandum between the Scottish Funding Council and the University.</p> <ul style="list-style-type: none"> - The University will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements and, if required, will demonstrate such compliance to all parties with whom it deals. - The University's Credit and Counter party policy {see TMP1 (5)} provides evidence of counter parties' powers, authority and compliance in respect of the transactions they may effect with the University particularly with regard to duty of care and fees charged. - While recognising that future legislative or regulatory changes may impact on its treasury management activities the University will seek to minimise any adverse impact.
<p><i>8 Fraud, Error and Corruption and Contingency Risk</i></p> <p>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 eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the areas of risk commonly referred to as operational risk.</p>	<ul style="list-style-type: none"> - The University's procedures for treasury management activities require:- <ul style="list-style-type: none"> a) All processes to be fully documented, b) A full record of the processes pursued in making decisions and executing transactions so as to create a clear audit trail. c) Internal control arrangements including segregation of duties where this is practical d) Regular balancing of accounting and supporting systems e) Restricted access to systems and services f) External Audit and Internal Audit Activity - The University has emergency and contingency plans e.g. in the case of absence of key staff - The University has Fidelity Guarantee Insurance providing cover of up to £500k in the case of named officers' error or defalcation. - The University has an approved Fraud Policy and Whistleblowing procedures
<p><i>9 Market Risk</i></p> <p>The risk that, through adverse fluctuations in the principal sums the University invests, its stated treasury management policy and procedures are compromised, against which effects it has failed to protect itself adequately.</p>	<p>The University has approved procedures which limit its exposure to investments whose capital value may fluctuate (equities, bonds, collective investments, gilts, certificates of deposit etc). Short term cash surpluses may only be invested with approved counterparties, are restricted as regard amount and investment period and may only be invested in bank deposits, money market funds, CD's or treasury bills.</p>

Value for Money

The University is committed to the pursuit of value for money in its treasury management activities, and to the use of performance measurement methodologies in support of that aim.

Accordingly, treasury management activity will be the subject of ongoing analysis of the value it adds in support of the University's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery. The performance of the treasury management function will be measured using criteria set out at the end of this Appendix.

The University 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 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. It will ensure, where feasible and necessary, that a spread of service providers is used to avoid reliance on a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed and responsibility for the monitoring of such arrangements rests with the Director of Finance

Where external service providers are appointed with responsibility for day to day matters the University will retain full responsibility for the safeguarding of its funds and setting treasury strategy.

The University 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 are taken to ensure that all issues relevant to those decisions were taken into account at the time.

Performance Methodology

The pursuit of value for money is the process by which an organisation pursues continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness, including improvement in the organisation's accountability. Value for money reviews fundamentally reassess the way services are provided and challenge why and how they are provided as well as comparing performance with others.

Performance measurement calculates the effectiveness of a portfolio's or manager's investment returns or the costs of borrowing and compares this with the performance of other portfolios or managers or with recognised industry standards or market indices.

Value for Money Reviews

Banking Services

The University's core operational banking services will be re-negotiated or re-tendered every 5-8 years to ensure they continue to meet the University's business needs and the level of charges and interest payable and receivable remain competitive.

The need for specialised banking services, eg. foreign currency payments, credit card payments, will be assessed on a case by case basis and procurement will be undertaken in accordance with University policy. Specialised services required on an ongoing basis will be renegotiated or re-tendered at least every five years.

Cash and Investment Management Services

The University's cash and investment management services will be re-negotiated or re-tendered every 5-8 years to ensure they continue to meet the University's business needs and that charges are competitive.

Decision Making and Analysis

In respect of every decision made the University will:

- above all, be clear about the nature and extent of the risks to which the University may become exposed
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- be content that the documentation is adequate both to deliver the University's objectives and to protect its interests, and to deliver good housekeeping
- ensure that third parties are judged satisfactory in the context of the University's credit worthiness policies and that limits have not been exceeded
- be content that the terms of any transaction have been fully checked against the market and have been found to be competitive

In respect of borrowing and other funding decisions, the University will

- evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding
- consider the ongoing revenue liabilities created and the implications for the University's future plans and budgets

Specifically when formulating proposals on financing or refinancing for the consideration of the Board of Governors the Director of Finance will have regard to:

- The rationale for and essential details regarding the financing/refinancing proposal. This will include the amount to be borrowed, after taking account of self and other sources of finance, the loan period suggested in the light of cashflow availability and prevailing market conditions
- Restrictions of the University's legal powers arising from statute or its own regulations and policies
- The requirements of the Funding Council set out in the financial memorandum or elsewhere
- All costs, interest and fees, and capital repayment commitments and their impact on University budgets and plans
- Terms and covenants, including any restrictions placed on the use of University assets
- Security required, if any, over University assets and the effect the granting of this would have on the University's stability and future plans
- The financial standing of the lender
- The terms, interest rates and expenses and structure are competitive and appropriate in the current market
- Comparison with alternative forms of funding and structures

In respect of investment decisions the University will:

- Consider the optimum period, in the light of cashflow availability, and prevailing market conditions
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the University to downward changes in the value of its capital

Investment Performance

The table below sets out the target returns for investments.

	Investment Period	Investment Limit (Total)	Target Return (Net of Fees)
a) Investment Managed In-house			
Sterling Cash Surpluses	Up to 3 months	£5 m	Bank Base Rate
Cash Surpluses	Greater than 3 months Less than 24 months	£15 m	6 months LIBID rate or Bank Base Rate + 10 pps
Euro Cash Balances			75% of Euro Bank base rate
US \$ Cash Balances			75% of US Bank base rate
b) External Managers			
Cash Manager	To 12 months	No limit	3 months LIBID
The RGU Fund		*	Benchmark fund + 1% per annum over rolling 3 year periods
The RGU Fund - General Endowments Fund		**	Benchmark fund
- Total Bursary Fund		**	Benchmark fund
The RGIT Ed. Dev. Trust Fund		*	Benchmark fund + 1% per annum over rolling 3 year periods

* Sums invested in accordance with decisions made by the Board of Governors and the trustees of the RGIT Educational Development Trust accordingly.

** Sums made available through donations or endowments to the University.