

**Treasury Management Policy**

Both the Office for Students and the Chartered Institute of Public Finance and Accountancy (‘CIPFA’) recommend that Higher Education Institutions publish a Code of Practice on Treasury Management (the ‘Code’). Good practice in financial and business activity is important, no more so in treasury management, where sound systems of financial planning and management control need to be in place. The College recognises the importance of this and so the Estates Bursar will ask the Estates Committee to review the Code periodically. The College’s approach is summarised as follows:

* Section 1 outlines the background to the College’s treasury activities;
* Section 2 sets out the Code’s key principles covering the objectives, policies and practices of treasury management;
* Section 3 contains the recommended clauses to be formally adopted by the Committee;
* Section 4 provides the Treasury Management Policy Statement; and
* Section 5 details the various Treasury Management Practices employed, with particular emphasis on the management of risk.

**Section 1 - Background**

Treasury management is managed by the Estates Bursar in conjunction with the College Accountant. It covers the following key areas:

1. ***Cash flow management***

Managing day-to-day cash balances at the bank, investing surplus funds as required and cash flow forecasting and management. Cash flow forecasts are prepared and reviewed periodically by the Estates Bursar and the College Accountant.

1. ***Investing cash deposits***

The source of the funds varies. Typically, it comprises day-to-day cash surpluses from the College’s operations held at bank, donations, and cash returns from investments such as property, some securities and private equity.

Ordinarily, the College utilises a sweep function to place cash deposits with its core bank, Barclays, in a Business Premium Account. Where appropriate, accumulated endowment funds are transferred to the College’s investment managers, Cambridge Associates (‘CA’), on a quarterly basis. The College has also engaged Royal London Asset Management (‘RLAM’) in order to provide a short-term return on significant funds awaiting investment or decisions on expenditure. The use of RLAM or indeed other banking providers will depend on available interest rates as well as the investment limits shown in Appendix 1.

Barclays deposits can be accessed immediately while those of RLAM require 48 hours’ notice. CA funds are invested for the longer term but the College’s investment management agreement with CA allows for a schedule of regular payments, if needed, and in practice CA hold a minimum amount of cash that could be accessed at short notice.

1. ***Management of foreign currency exposures***

The College has limited US$ and € cash inflows and outflows each year, the majority of which are donation and private equity related.

Treasury activity includes maintaining US$ and € bank accounts in order to provide a natural hedge on inflows and outflows and ensuring, where possible, that the risks of currency fluctuations are minimised.

1. ***Management of borrowing facilities***

The College has the following borrowing facilities to assist with the management of its operations and investments:

* A £11.0m fixed rate, unsecured, amortising term loan with Barclays in respect of the original acquisition of Northgate House that matures in 2028;
* A £25m fixed rate, unsecured non-amortising loan with BAE Systems Pensions Funds Investment Management (‘BAEPFIM’), used originally to fund the Northgate Project, £10m of which matures in 2037 and £15m of which matures in 2058;
* A £5m unsecured overdraft with Barclays;
* A £5m unsecured revolving credit facility with NatWest maturing in 2026; and
* A £3.1m fixed rate, unsecured, amortising term loan with NatWest maturing in 2031.

All facilities include gearing covenants based on the College’s net debt.

The maintenance and operation of these facilities is the responsibility of the Estates Bursar and the College Accountant.

**Section 2 – Key principles**

The Code identifies three key principles.

***Key principle 1***

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

***Key principle 2***

Policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within the organisation. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds.

***Key principle 3***

It should be acknowledged that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

**Section 3 - Clauses to be formally adopted**

CIPFA recommends that organisations such as universities adopt as part of their standing orders, financial regulations, or other appropriate formal policy documents the following four clauses

***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; and
* It supports the adoption of the clauses contained within the Code and the adoption of a Treasury Management Policy Statement, and will follow the recommendations contained within its Treasury Management Practices (‘TMPs’).

Accordingly, it will create and maintain:

* A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities; and
* Suitable TMPs that set out the way the College will seek to achieve its policies and objectives and manage and control its activities.

***Clause 2***

* The College’s Estates Committee will receive reports on its treasury management policies, practices and activities, comprising, as a minimum, an annual review report.

***Clause 3***

* 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 Estates Bursar and the College Accountant, who will act in accordance with the College’s policy statement and TMPs.

***Clause 4***

* The College nominates its Estates Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

**Section 4 - The Treasury Management Policy statement**

1. The College defines the policies and objectives of its treasury management activities as the ‘management of its 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’.
2. It regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the College.
3. It acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives and accordingly will employ suitable performance measurement techniques within the context of effective risk management.

**Section 5 - Treasury Management Practices (TMPs)**

***TMP1 - Risk management***

The Estates Bursar will design, implement and monitor arrangements for the identification, management and control of treasury management risk, and will report at least annually to the Estates Committee on the adequacy/suitability thereof. In addition, he/she will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the College’s objectives in this respect.

* *Credit and counterparty risk management*
	+ A key objective of the College’s treasury management activities is the security of the principal sums it invests. Accordingly, counterparty lists and limits will reflect a prudent attitude towards organisations with which funds may be deposited and will limit any investment activities to the instruments, methods and techniques referred to in the TMP4 approved instruments section below.
	+ The overriding principle guiding the investing of surplus cash balances is the preservation of capital value. Accordingly, surplus funds are authorised to be deposited or invested only with those organisations meeting the College’ credit worthiness selection criteria.
	+ The Estates Bursar and the College Accountant are responsible for monitoring the creditworthiness of approved deposit takers on the list of counterparties. The College’s investment mandate restricts it to using those UK banks with a minimum short-term credit rating of A1 (as defined by Standard and Poors) and a minimum long-term rating of A up to a maximum period of six months. In addition, it has set maximum investment limits with counterparties.
	+ The College may invest in Money Market Funds that meet the criteria, and within the limits set out in the counterparty policy.
* *Liquidity risk management*
	+ The 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 which are necessary for the achievement of its business/service objectives.
	+ The gearing level, defined as net debt to net assets, shall not exceed 25%.
	+ The College has a number of bank accounts, which are ‘swept’ regularly to its main deposit account. The Estates Bursar may seek authority from the Estates Committee to negotiate an overdraft if one is required.
* *Interest rate risk management*
	+ The College will ensure that it protects itself adequately against the risk of fluctuations in the level of interest rates.
	+ It will budget for income earned on its Deposit Pool (cash) investments based on forecasts of actual and likely interest rates over the year ahead.
	+ It 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.
	+ Inflation is taken into account in the College’s annual budget. A view is taken on the likely inflationary impact on sources of income such as fees and deposit pool interest, as well as national expenditure levels of salary awards, potential increases in employers’ contributions and non-pay expenditure.
* *Exchange rate risk management*
	+ The College will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.
	+ Its main hedging technique involves maintaining limited $ and € balances which provide a natural hedge for its known foreign currency receipts or expenditure. Only in exceptional circumstances would it consider purchasing currency options to protect specific budget rates.
	+ The College will not trade in currencies.
* *Refinancing risk management*
	+ The College will ensure that its borrowing arrangements are negotiated, structured and documented, and that the maturity profile of the monies raised are managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to it as can reasonably be achieved in light of market conditions prevailing at the time. Ordinarily, it will initiate the process for obtaining such terms at least twelve to eighteen months in advance of a refinancing being required.
	+ Where refinancing is not possible or not contemplated, an appropriate plan for the repayment of any borrowings will be prepared well in advance of the date of repayment.
	+ It will actively manage its borrowing relationship and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.
	+ Any College borrowings are generally carried out only after specific advice has been sought and competitive quotes obtained from the market.
* *Legal and regulatory risk management*
	+ The College will ensure that its treasury management activities comply with its statutory powers and regulatory requirements. The College recognises that future legislative or regulatory changes may impact its treasury management activities and, so far as it is reasonably able, will seek to minimise the risk of these impacting adversely upon it.
	+ Prior to entering into any borrowing or investment transaction, the Estates Bursar will ensure that the proposed transaction does not breach any statute or by-law or any terms and covenants concerning borrowing.
* *Fraud, error and corruption, and contingency management*
	+ The College will aim to identify the circumstances that 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 meet these ends.
	+ Investment transactions are subject to clearly established internal procedures, as well as in-house authorisation and signing limits, which are carried out in conjunction with the College’s bankers.
	+ Insurance cover for fraud and professional indemnity cover is held and provided up to a maximum limit of £5m.
	+ Contingency plans exist with the College’s bankers to download opening bank balances and make same day payments in the event of a computer failure.
	+ The Treasury Management operation is subject to annual review by the Estates Committee and external audit.

***TMP2 - Performance measurement***

The College monitors the interest rates earned and payable on its cash management vehicles, comparing these to standard bank rates periodically. The College operates a daily sweep from its main current account, taking all but £20k overnight into its Business Premium account. The EB and Head of Finance monitor cash balances and interest rates to ensure when larger balances are held these are transferred into higher interest earning vehicles where possible.

***TMP3 - Decision making and analysis***

The College will maintain a record of its treasury management decisions, and of the processes and practices applied in reaching those decisions, to demonstrate that reasonable steps are taken to ensure that issues relevant to those decisions are taken into account at the time. Records kept include:

* Details of cleared and uncleared balances for each of the College’s bank accounts, known income, investment maturities and any other significant items of income and expenditure;
* Cash flow history detailing each week’s expenditure and income, under the main categories.

***TMP4 - Approved instruments, methods and techniques***

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

The College does not preclude the use of any of the mainstream investment instruments or types of investment vehicle, subject to satisfactory prior research and advice being undertaken and approval of the Estates Committee being given.

***TMP5 - Organisation, clarity, segregation of responsibilities and dealing arrangements***

The College considers it essential, for the effective control and monitoring of its treasury management activities, the reduction of the risk of fraud or error, and the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is 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.

* The Treasury Management Policy is set by the Estates Committee
* The Estates Bursar has overall responsibility for the Treasury Management operation with the College Accountant having day-to-day operational responsibility.
* The Treasury section is subject to internal financial controls and is set-up in such a way as to achieve adequate separation of duties.

***TMP6 - Reporting requirements and management information arrangements***

The College will ensure that reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed; 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 Estates Committee will receive an annual report on prior-year performance and likely strategy for the year ahead.

***TMP7 - Budgeting, accounting and audit arrangements***

The Estates Bursar and the College Accountant will prepare, and the Estates Committee will approve, an annual budget for treasury management. They will exercise effective controls over, and report on, this budget.

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 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***

Cash flow projections will be prepared on a regular and timely basis and the Estates Bursar will ensure that these are adequate for the purposes of monitoring compliance with liquidity risk management. In principle, these should comprise:

* A cash flow overview for the year ahead, prepared annually and thereafter updated periodically so that it assists with day-to-day investment decision-making;
* Cash flow forecasts affecting the College’s capital payments; and
* Weekly short-term forecasts of cash receipts and payments.

***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.

* Cash investments from the College’s Deposit Pool will only be made to those institutions approved by the Estates Committee.
* Any donations or gifts received will be subject to appropriate verification of the counterparty.

***TMP10 - Staff training and qualifications***

The College recognises the importance of ensuring that staff involved in the treasury management function are 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.

***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 subject to regular review.

***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.

**Appendix 1: Approved counterparties, ratings and limits**

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| --- | --- | --- | --- | --- |
| **Counterparty** | **Transaction** | **Minimum Rating****(S&P)** | **Currency** | **Limit** |
| Banks: |
| Barclays | Current accounts | A-1 | £, $, € | <£7,000,000 (of which, Max £3m on deposit with >6 months notice) |
| Barclays | Sweep/Savings Account | A-1 | £ |
| Barclays | Short-term deposit accounts | A-1 | £, $, € |
| Barclays | Long-term deposit accounts  | A | £ |
| Barclays | Interest bearing instant access account (CA Managed) | A-1 | £, $, € | No Limited defined but looking to change bank within 12 months |
| Barclays | Overdraft | A-1 | £ | <£5,000,000 |
| Barclays | Term loan | A-1 | £ | <£20,000,000 |
| NatWest, HSBC & Lloyds  | Short-term deposit accounts | A-1 | £ | <£2,000,000 |
| NatWest | Revolving credit facility | A-1 | £ | <£5,000,000 |
| NatWest | Term loan | A-1 | £ | <£3,400,000 |
| Other financial institutions: |  |  |  |
| Royal London Asset Management | 48 hour access. Short Term Money Market Fund  | A(A-1\*\*) | £ | <£20,000,000 |
| Others\* | 48 hour access cash fund | AA | £ | <£10,000,000 |
| BAEPF | Private placement funds | N/A | £ | <£25,000,000 |

\* Subject to prior approval by the Estates Committee. \*\* Fund invests in money market instruments with minimum rating of A-1. Royal London AM is subsidiary of Royal London Mutual, rating A.

**Appendix I1: Approved cash management instruments, methods and techniques**

The following financial instruments are acceptable:

* Approved UK clearing banks: Current accounts, short-term deposit accounts, long-term deposit accounts not >6 months, and overdrafts.
* Borrowings: Fixed term loans and revolving credit facilities with approved UK clearing banks with fixed or variable interest rates, although for amounts >£5m and five years, a minimum of 50% should be subject to a fixed interest rate.
* Cash management funds: Subject to appropriate prior research and EC approval and restricted to funds with >85% invested in A and above rated bonds.
* Currency: Current and short-term deposit accounts in $ and € only. Forward purchases and sales of currency may be made with prior EC approval.
* Derivatives: Under no circumstances is trading in derivatives permitted. All other uses are subject to research and prior EC approval.