Treasury Management Procedure

Enabling Policy Statement; Executive Owner; Approval Route:	Our Operations - Chief Operating Officer - Operations Committee
Is the Procedure for internal use only (Non-disclosable) ?	Disclosable
Associated Policy Statements:	N/A
Authorised Owner:	Chief Financial Officer
Authorised Co-ordinator:	EA to CFO
Effective date:	1 April 2023
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Sub documentation:	N/A

Approval History

Version	Reason for review	Approval Route	Date
1	Review	Finance Committee / Council	26.9.13 / 10.10.13
2	Review	Finance Committee / Council	26.9.14 / 9.10.14
3	Review	Finance Committee / Council	28.09.17 / 9.10.17
3.1	Review - Spinout / subsidiary company changes noted	Finance Committee	18.1.18
4	Review	Finance Committee	17.11.20
4.1	Review	Council	26.11.20
5	Review alongside transfer from Policy to Procedure as part of the POPP Framework .	Finance Committee	01.03.23

1. **Purpose**

Effective treasury management will support the University in achieving its strategic and operational objectives.

1.1. The purpose of this procedure is to set out how the University will manage its treasury management activities in order to control the associated risks and optimise performance consistent with those risks.

1.2. The procedure applies to members of the Finance Committee, the Chief Financial Officer, and members of the Finance Team.

2. **Scope and Exceptions to the Procedure**

2.1. The University will ensure its treasury management activities are structured and managed in a clear and fully integrated manner, with appropriate segregation of duties, in order to reduce the risk of fraud or error and to optimise performance.

2.2. Any exceptions to this policy require Finance Committee approval.

2.3. The Chief Financial Officer will ensure there are clear written statements of the responsibilities of each role engaged in treasury management and the arrangements for absence cover.

2.4. The core principles and the specific requirements of section 4.3 below apply also to the members of the Research Park Board and to the directors of subsidiary companies.

3. **Definitions and Terminology**

3.1. **Definitions**

3.1.1. **Treasury management activities** - The University's management of the following:-

- Borrowings
- Investments*
- Cash flows
- Banking facilities
- Money market and Capital market transactions
- Effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks (CIPFA Treasury Management Code, 2017 Edition).

*The University's definition of investments in this context includes endowment fund investments but excludes investments made under the commercialisation agenda and investments in subsidiary companies.

3.1.2. **Credit and counterparty risk**- the risk of failure by a third party to meet its contractual obligations to the institution, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the institution's capital or revenue resources.

3.1.3. **Refinancing risk** - the risk that maturing borrowings cannot be refinanced on terms that reflect the provisions made by the institution for those refinancings, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

3.1.4. Short-term investment criteria – see Appendix 1

4. **Procedural Principles**

4.1. The responsibilities of key parties with regards to treasury management are as follows:

4.1.1. Council

- to approve proposals for new borrowings or increases to existing debt arrangements;

4.1.2. Sub-Committee – Finance Committee

- to approve the Treasury Management Policy and any amendments thereof~~;~~
- to approve Criteria for Short Term Investments (including counterparties, credit limits, maximum term for deposits and approved investment instruments);
- to consider proposals for new borrowings and to recommend such proposals to Council for

approval;
- to approve extensions of existing overdraft arrangements or revolving credit facilities;
- to approve hedging arrangements;
- to receive annually from the Finance Department a summary list including current balances of all loans, hedging and cash investments; and
- to receive from the Chief Financial Officer details of any drawdowns made from overdraft or revolving credit facilities.

4.1.3. Executive Owner to add further responsibilities for eg: Directors, Heads and line Managers.
- The Chief Financial Officer has overall responsibility for this procedure.
- The Director of Financial Operations and Accounting has responsibility for ensuring it is effectively implemented, progress is monitored and that the procedure is regularly reviewed.

4.1.4.Chief Financial Officer
- to submit appropriate regular and ad-hoc treasury management reports to Finance Committee;
- to ensure the adequacy of treasury management resources and skills, and the effective division of treasury management responsibilities within the Finance function;
- To approve drawdowns of any overdraft or revolving credit facilities for meeting operating cashflow requirements.
- to ensure that procedures relating to the treasury function are fully documented, reviewed on an annual basis, and revised where appropriate; and
- to appoint external service providers.

4.1.5.Director of Financial Operations and Accounting
- To approve the investment of cash in short term cash investments that meet the restrictions of the Short Term Investment Criteria.

4.1.6 Head of Financial Accounting
- to administer the treasury management procedure on a day-to-day basis
- to recommend to the Chief Financial Officer the drawing down of any overdraft or revolving credit facilities
- to execute transactions; and
- to maintain treasury management records.

4.2. Reporting Requirements and Management Information Arrangements

4.2.1.Reports to Finance Committee
Finance Committee will receive an annual report covering:-
- the performance of the treasury management function in the previous 12 months, including the reasons for, and the effects of any changes to, the strategy set at the beginning of the year; and
- the strategy and plan to be pursued in the coming year

In addition to the annual report received by Finance Committee, the committee will receive:-
- Regular cash flow information;
- Ad-hoc reports to support any proposed changes to the short term investment criteria or hedging arrangements

In addition to the above, Finance Committee will receive appropriately detailed reports to support any proposed new borrowings or other significant treasury management decisions.

The Chief Financial Officer will, upon identification of any treasury management event that is likely to have a materially adverse effect on the finances or operations of the University (including any breach or potential breach of financial covenants with lenders), report this promptly to the President & Vice Chancellor and to the Treasurer.

4.3. Subsidiary Companies

4.3.1. Subsidiary company balances may be aggregated with those of the University where this is explicitly agreed by the boards of the subsidiary companies.

4.3.2. Any subsidiary company borrowing requirements will normally be met by an internal loan from the University The terms and conditions of any such loan require approval by the University Finance Committee.

4.4. **Money Laundering**

4.4.1. The University 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 area are properly trained.

4.5. **Use of External Service Providers**

4.5.1. The University recognises that responsibility for treasury management decisions remains with the University at all times.

4.5.2. Where external providers of treasury management services are used in order to acquire access to specialist skills and resources, the University's standard procurement processes will be followed and value for money assessed taking into account all relevant factors including the cost, quality, reliability and scope of service.

4.6. **Decision-Making and Analysis**

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

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

- have due regard to its constitutional powers and any relevant statutory and regulatory requirements;
- 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;
- consider the alternative interest rate bases available and the most appropriate means of minimising interest rate exposure, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding; and consider the ongoing revenue liabilities created, and the implications for the University's future plans and budgets.

4.7. Cash and Cash Flow Management

4.7.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University will be under the control of the Chief Financial Officer, and will be aggregated for cash flow and investment management purposes.

4.7.2. The University will maintain an effective cash flow forecasting and monitoring system in order to:

- support it in meeting its medium term capital requirements;
- identify short term liquidity needs; and

- assist the University in maximising its investment return by identifying when surplus cash can be placed on fixed term deposit.

4.8. Value for Money and Performance Management

4.8.1. The University is committed to the pursuit of value for money. Its treasury management activities will be subject to regular examination of alternative methods of service delivery and of the scope for other potential improvements within the limitations of the resources available.

4.8.2. Performance will be measured as follows:-

- Cash deposits: the average rate of return will be measured on an annual basis against the rate included within the annual treasury management strategy and plan. This target rate will reflect market conditions, but is generally expected to be a minimum of 3 month LIBOR.
- Long term investments: against a benchmark agreed with the investment managers, corresponding to the University's risk profile.

4.9. Risk Management

4.9.1. The Chief Financial Officer will establish, implement and monitor arrangements for the identification, management and control of treasury management risk. They will report at least annually to Finance Committee on the adequacy/suitability of the arrangements and, as a matter of urgency, any actual or likely difficulty in achieving the University's objectives in this respect. The arrangements, which seek to ensure effective management of key treasury risks, are set out below:-

4.9.1.1. Liquidity Risk Management

4.9.1.1.1. The University will ensure it has sufficient cash and available facilities to meet its liabilities as they fall due with a sufficient margin to meet unexpected expenditure that may arise from time to time.

4.9.1.1.2. The University will keep within any agreed overdraft limits (£nil at 15th February 2023).

4.9.1.2. Interest Rate Risk Management

4.9.1.2.1. The University will use hedging instruments (standalone derivatives or embedded fixed rate loans) to manage its exposure to fluctuations in interest rates.

4.9.1.2.2. To assist in achieving relative stability and certainty of costs, the University will hedge a minimum of 70% of its outstanding bank/Private Placement term debt. To minimise the impact on net interest costs, the University will allow its cash balances to act as a natural hedge against a proportion of its bank debt.

4.9.1.2.3. Prior to the undertaking of any new borrowing, the Chief Financial Officer will prepare a report, for approval by the Finance Committee, with recommendations for managing the exposure resulting from that new borrowing.

4.9.1.2.4. Revolving credit facilities will normally remain subject to variable interest rates. However, consideration may be given on a case-by-case basis to hedging an element of the facilities dependent on the value and profile of the expected drawn balance.

4.9.1.3. Exchange Rate Risk Management

4.9.1.3.1. The University will not expose itself to unnecessary or speculative exchange rate risk.

4.9.1.3.2. The University will maintain accounts in Euros and US Dollars as significant levels of both receipts and payments are made in these currencies.

The Chief Financial Officer has authority to approve additional foreign currency accounts if appropriate.

4.9.1.3.3. The University will retain funds in these currencies only to the extent that payments are due to be made in these currencies. Currency receipts surplus to this will be transferred into sterling at the best rate available promptly following receipt.

4.9.1.3.4. The University is exposed to exchange rate fluctuations in respect of research project income to the extent that bids are submitted and awarded in foreign currencies. The most significant source of such income is the EU Commission. Due to uncertainties over timing of cash receipts from the EU, the University will not normally arrange hedging for its foreign currency transactions. In exceptional circumstances, the Chief Financial Officer may approve hedging arrangements on a case-by-case basis.

4.9.1.3.5. The University will seek to reduce the risk arising from adverse exchange rate movements by mandating the use of an institutional bid rate for foreign currency research projects. This will be set at an agreed margin above the 12 month forecast rate given by financial institutions. All project budgets for foreign currency awards will be fixed in sterling using the prevailing bid rate at the start of the project. All gains and losses incurred on foreign currency transactions will be credited / charged to a central finance budget.

4.9.1.3.6. The Chief Financial Officer will maintain a list of approved foreign exchange brokers.

4.9.1.4. **Credit and Counterparty Risk Management (Investments / Cash Deposits)**

4.9.1.4.1. In any decisions over cash deposits, the security of cash deposited must take precedence. However, the complete avoidance of risk is neither appropriate nor possible. To assist in achieving an appropriate balance between risk and return, the University will maintain a Schedule of Short Term Investment Criteria, to include:-

- Approved Counterparties, Credit Limits and Maximum Term for Deposits
- Approved Investment Instruments

4.9.1.4.2. The list of approved counterparties will be based on counterparties meeting either:

- minimum credit rating criteria from at least two out of three of the main credit rating agencies (Standard and Poors, Moodys and Fitch), or
- alternative minimum criteria as specified in the Schedule

4.9.1.4.3. All amendments to the Schedule must be approved by Finance Committee.

4.9.1.4.4. Where the University has placed funds on fixed term deposit and circumstances change such that there is a rating agency downgrade or the University receives advice regarding the counterparty’s creditworthiness, no further funds will be deposited with that counterparty. Existing deposits will be allowed to mature unless the change indicates a fundamental deterioration in the institution’s financial position to the extent that the security of the deposit is considered at risk. In such circumstances, the Chief Financial Officer will seek the early return of the deposit and will attempt to minimise the breakage costs of the early return.

4.9.1.5. Credit and Counterparty Risk Management (Borrowings)

4.9.1.5.1. The University may borrow from banks, other financial institutions and the bond markets.

4.9.1.5.2. Loan facilities will only be arranged with organisations that are judged to have sufficient financial strength to ensure the funds committed under the facilities will be available as and when they are required by the University in accordance with the terms of the loan arrangement.

4.9.1.6. Refinancing Risk Management

4.9.1.6.1. The University will seek to eliminate refinancing risk by borrowing long term and only in respect of projects where there is a robust business plan which will generate sufficient cash surpluses to cover the borrowing costs (revenue and capital) over the life of the project.

4.9.1.6.2. To the extent this is not possible, the University will ensure that its financing arrangements are structured with a view to obtaining competitive and favourable offer terms for renewal or refinancing, if required.

4.9.1.6.3. 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.

4.9.1.7. Covenant Breach Risk Management

4.9.1.7.1. The University recognises the risk that failure to meet terms set by lenders may lead to default of loan(s) and the resulting withdrawal of credit facilities. Moreover, it recognises that default on any individual loan is likely to trigger the cross-default clauses in other loan agreements with the same and other lenders.

4.9.1.7.2. The University benefits from “covenant light” loan agreements. It will seek to minimise the risk of covenant breach by ensuring, where possible, that any new financing arrangements do not contain more onerous financial covenants than existing loan agreements.

4.9.1.7.3. The University will monitor and report on loan covenant compliance on a regular basis appropriate to the risk.

4.9.1.8. Legal and Regulatory Risk Management

4.9.1.8.1. The University will ensure that it does not breach its constitutional and statutory powers and regulatory requirements. It will ensure that there is evidence of counterparties’ powers, authority and compliance in respect of the transactions they may enter into with the University.

4.9.1.8.2. In so far as it is reasonably able to do so, the University will seek to minimise the risk of future legislative or regulatory changes impacting adversely the organisation.

4.9.1.9. Fraud, Error and Corruption, and Contingency Management

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

4.9.1.9.2. The University will maintain cover under an Employee and Third Party insurance policy against direct financial loss caused by crime.

4.9.1.10. Market Risk Management

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

4.9.1.10.2. Where monies are to be held for the long term, the University will invest for capital growth and seek to manage the risk of adverse market fluctuations in the value of the principal sums invested through diversification. This will generally be achieved through investment in a balanced portfolio managed by professional external investment managers.

4.9.1.10.3. Long term investments, where the value of the principal is subject to market fluctuations, will generally be restricted to permanent endowment funds and any significant expendable endowment funds where the expectation is that the principal will be held for the long term. Long term investment of non-endowment monies is subject to Finance Committee approval.

5. Governance Requirements

5.1. **Implementation: Communication Plan**

5.1.1. This policy will be communicated via the University's Corporate Policies website and directly to those named in Section 1.2 above.

5.2. Implementation: Training Plan

5.2.1. 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.

5.2.2. The Chief Financial Officer will ensure that Finance Committee members have access to training relevant to their needs and responsibilities.

5.3. **Review**

5.3.1. This procedure will be reviewed on an annual basis.

5.3.2. The operational owner will be responsible for any minor changes between formal reviews e.g changes of roles role titles or other titles or names which do not change the meaning of the policy.

5.4. **Legislative Context and Higher Education Sector Guidance or Requirements**

5.4.1. The University follows the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

5.4.2. The University's powers to borrow and invest monies and undertake related transactions are defined in its Charter, Statutes and Ordinances. An agreed Scheme of Delegation sets out which powers which are reserved to Council and which are delegated and to whom.

5.4.3. The University is required to comply with the OfS Regulatory Framework including:

- Conditions of Registration D: Financial viability and sustainability
- Reportable events requirements which include the requirement to report a material change in gearing.

5.5. **Sustainability**

5.5.1. There are unlikely to be any direct implications from the implementation of this Procedure.

6. Stakeholder Engagement and Equality Impact Assessment

6.1. An Equality Analysis has been carried out and this has determined that no protected groups will suffer adverse consequence as a result of this procedure.

6.2. Health and Safety: There are unlikely to be any direct Health and Safety implications from the implementation of this Procedure.

6.3. Stakeholder Consultation was completed, as follows:

Stakeholder	Nature of Engagement	Request EB Approval (Y/N)	Date	Name of Contact
Governance	Development and creation of this procedure v5	N	Feb 2023	Andrea Langley
H&S	Development and creation of this procedure v5	N	Feb 2023	Matthew Purcell
Sustainability	Development and creation of this procedure v5	N	Mar 2023	Martin Wiles