



BISHOP GROSSETESTE UNIVERSITY

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Treasury Management Policy

1. Introduction

1.1 This Policy sets out the University's approach to treasury management which is defined as:

- the management of the University's cash flows, its banking, investment and borrowing transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks;
- the Policy applies to the University, and its subsidiary companies.

2. Treasury Management Objectives

2.1 The Policy recognises that there are risks in treasury management which need to be addressed by the University as follows:

- (a) *Liquidity risk*: to ensure there are adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable the University at all times to have the level of funds available which are necessary for the achievement of the University's business objectives;
- (b) *Interest rate, Exchange rate and Inflation risk*: to ensure adequate protection against the risk of fluctuations in these monetary factors creating unexpected or unbudgeted burdens on the University's finances;
- (c) *Market risk*: to ensure the University will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and accordingly to protect it from the effects of such fluctuations;
- (d) *Legal and regulatory risk*: to ensure that all of the University's treasury management activities comply demonstrably with its statutory powers and regulatory requirements and that the risk of these impacting adversely on the University is minimised;
- (e) *Fraud, error, corruption and contingency*: to ensure that circumstances are identified and addressed which may expose the University to risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Particular attention is to be given to the provisions of the Money Laundering Regulations (2007) and associated legislation such as the Terrorism Act (2006) and the Proceeds of Crime Act (2002).

2.2 The Policy adopts the general approaches listed in 2.1, and then sets certain more detailed objectives as follows:

- (a) For cash and temporary investments to achieve the following objectives in priority order:
 - (i) to minimise the risk of loss or non-repayment;
 - (ii) to ensure that the periods for which monies are invested are consistent with the cash flow requirements of the University so funds are available when needed;
 - (iii) to achieve a reasonable rate of return having regard to the first two objectives.

- (b) For funds held in endowments or for other long-term purposes to achieve the following objectives in priority order:
- (i) to minimise the risk of loss or non-repayment;
 - (ii) to ensure the monies are invested consistent with the requirements of the endowment or long-term purpose, in regard to the nature of the investments (where specified) and the availability of funds for the activity;
 - (iii) To ensure the selection of investments reflect the ethical values of the University, therefore the University will not invest in those organisations where the primary part of their business clearly demonstrates the following characteristics:
 - explicit environmental damage
 - manufacture and sale of armaments to military regimes
 - institutional violations of human rights, including the exploitation of the work force
 - discrimination against the individual
 - the manufacture and sale of tobacco products.
 - (iv) To achieve a reasonable rate of return having regard to the first three objectives.
- (c) For working capital procedures, to maximise by proper control of debtors and creditors the amount of cash available to the University, consistent with the requirements of customers and suppliers terms of business, and good practice.
- (d) For borrowings, to achieve the following objectives in priority order:
- (i) to raise finance in a timely and efficient fashion for approved projects;
 - (ii) to pay the lowest reasonable cost of funds;
 - (iii) to control tax risks
 - (iv) to agree with lenders such security arrangements and other constraints over the University as to leave it with the maximum freedom over its future finances.
- (e) For foreign exchange, to keep as simple as reasonably possible its transactions involving foreign currency, consistent with keeping administration and transaction costs low.

3. Responsibility and Authorisation

- 3.1 Responsibility for the Treasury Management Policy is ultimately that of the Vice Chancellor as Accounting Officer of the University. This responsibility is exercised on behalf of the Vice Chancellor by the Director of Resources.
- 3.2 The Director of Resources may delegate, under a scheme of delegation, the duty of temporary investment, but not the responsibility, to the Head of Finance as he/she sees fit. It is current practice for this duty to be undertaken normally by the Head of Finance in consultation with the Director of Resources without any restriction on limits,

but subject to agreed authorisation and monitoring procedures. The Head of Finance is responsible for ensuring that investment procedures and relevant bank mandate records are clearly documented, reviewed annually and updated as necessary.

- 3.3 The Finance, Employment and General Purpose Committee is responsible for advising on investment policy and monitoring investment transactions undertaken by authorised officers. This function is exercised by the approval of broad policy guidelines within which University employees must act.

4. Procedures for Cash and Temporary Investments

- 4.1 The amount and period of any temporary investment shall be determined by reference to the University's estimated short-term cash flow requirements. For this purpose, the Head of Finance is responsible for maintaining a detailed forecast of cash movements covering at least three months ahead.

- 4.2 Occasional use of the University's bank overdraft facility is permissible.

- 4.3 To assist with obtaining the best interest rates, the University will seek to consolidate so far as possible all surplus cash for investment, from its subsidiary companies, and endowments (excluding cases where legal restrictions or the provisions of the endowment require otherwise).

- 4.4 Where the University invests funds itself, the arrangements are that the only approved investment, except for accounts with the University bank, is the simple money market deposit – either for a fixed period or on notice (e.g., two day – seven day). Specifically prohibited are:

- commercial paper;
- sterling certificates of deposit;
- any transaction involving the use of the futures market;
- any transaction requiring the use of interest rate swaps.

- 4.5 Within the total temporary investments, any proportion (including the whole) may be invested at variable rates (i.e., on notice).

- 4.6 Institutions to which money may be lent are restricted to the following list:

- UK clearing banks (and their wholly-owned subsidiaries) having a minimum current Fitch IBCA credit rating of F1;
- major UK building societies (ranked by total assets) having a minimum current Fitch IBCA credit rating of F1.

- 4.7 The amounts which may be lent to individual borrowers or banking groups shall be determined by the Finance, Employment and General Purpose Committee, and may be varied from time to time.

- 4.8 The current list of approved institutions and counterparty limits is shown in the Annex, and the latest version at any time is available from the Head of Finance. The Head of Finance is responsible for amending the list based on changes in ratings and this will be presented annually to the Finance, Employment and General Purpose Committee.

- 4.9 Any interest-bearing account facilities offered by the University's bankers may be used as an alternative to temporary investment at the discretion of the Head of Finance. In determining the use of such facilities, regard shall be paid to the rate of interest received and on any restrictions placed by the Bank on the use of such accounts.
- 4.10 It is normally expected that temporary investment will be arranged through an authorised and regulated London money broker to obtain as wide as possible a range of potential borrowers.
- 4.11 The University is responsible for ensuring that any transactions placed through brokers conform to this Policy.
- 4.12 The University may also deal direct with any institution on the approved list of borrowers who may, from time to time, offer terms of deposit which are substantially better than general money market rates.
- 4.13 The University may also choose to hold cash balances and temporary investments on deposit with stockbrokers and fund managers. These decisions will be made only with prior approval of the Finance, Employment and General Purpose Committee. The funds invested in this way will be fully subject to this Policy in other regard than their management.
- 4.14 Interest earned from investments will be credited to the appropriate accounts as required to meet reporting timetables in the University.

5. Procedures for Endowment Funds and other funds held for long-term purposes

- 5.1 Endowment funds and other University funds held for long-term purposes are covered by this Policy, subject to meeting the requirements of any donors where relevant.
- 5.2 The funds will be invested in capital market investments, gilts and equities as well as cash, where the rate of return is consistent with the objectives of the activity and where the size of the funds justifies the extra costs and risks involved.
- 5.3 The University will use investment managers where investments of gilts and equities are involved on a significant scale. The investment managers will be expected to perform in accordance with agreed parameters and their performance will be regularly monitored by the Finance, Employment and General Purposes Committee.

6. Procedures for working capital

- 6.1 These procedures concern debtors and creditors. The Head of Finance will make arrangements for debts to be collected promptly and creditors to be paid in a timely fashion so as to maximise operating cash flow. Discounts for early payment will be accepted where their size exceeds the loss of interest on cash used and interest may be charged on payments later than 30 days from the invoice date.

7. Procedures for Borrowings

- 7.1 An overdraft facility may be maintained for operational purposes. A loan facility may also be arranged following prior agreement of the Finance, Employment and General Purposes Committee for the same purpose. In both cases their use will be minimised so as to keep costs down. They will not be used for long-term purposes.
- 7.2 Any proposals for long-term borrowing for funding of projects will be evaluated carefully by the Head of Finance in line with the University's financial plan and the objectives of this Policy, and will not be undertaken without the express decision of the Finance, Employment and General Purposes Committee. It will normally be expected that several sources of funds will be evaluated in each case.
- 7.3 Where necessary appropriate interest rate hedging, through fixed rates, caps, and other non-aggressive instruments, will be undertaken to protect the University from sharp increases in interest rates on borrowings. The balance between protection and loss of flexibility will be evaluated by the Head of Finance with such external advice as he/she considers appropriate. Decisions will be taken by the Finance, Employment and General Purpose Committee but the Committee may delegate to the Head of Finance the timing of implementation of a proposal so as to allow favourable market conditions to be exploited.
- 7.4 Any subsequent refinancing of a borrowing arrangement will be considered if the terms are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time, and will require approval by the Finance, Employment and General Purposes Committee.

8. Procedures for Foreign Exchange

- 8.1 Generally the University will seek to keep simple its transactions involving foreign currency. To this end it will:
- (a) seek where possible to have transactions conducted in sterling rather than foreign currency;
 - (b) avoid speculating on the future value of foreign currencies against the Pound (GBP);
 - (c) seek wherever possible to keep the administration of foreign currency transactions and holdings simple and low cost in administrative terms.
- 8.2 The University will not generally hold foreign currency except in the anticipation of significant related expenditure or onward payment to organisations. For currencies where there are both extensive purchases and sales, the University will keep under review whether to open foreign currency bank accounts with its bank in the UK in order to reduce transaction costs.
- 8.3 *Overseas Bank Accounts:* Where a large number of foreign currency transactions is expected to occur in a single overseas location (such as may arise from a large research project, or the activities of an overseas agent), a foreign currency bank account may be opened overseas following approval from the Finance, Employment and General Purpose Committee. In these cases, the University will take advice from its own banker and the Head of Finance will satisfy her or himself that the funds will be secure and well managed. Where the banking arrangements in foreign countries do not appear to be secure, the University will take advice from its bank, and its

Auditors if appropriate, on how the maximum security of University funds may be achieved. A regular audit of such overseas accounts by Internal Audit will also be arranged.

8.4 *Currency Conversion Costs:* Costs arising from conversions from foreign exchange will be absorbed by the relevant budgets for the activity.

8.5 *Hedging:* The University will not normally arrange hedging for its foreign exchange transactions. Exceptionally, where certainty of costs is required and it is important that losses are avoided, the Director of Resources may approve hedging arrangements on a case by case basis.

9. Forecasting, Monitoring and Reporting

9.1 The Head of Finance will prepare appropriate cash flow forecasts for the coming year at the start of each financial year. The forecasts will be reviewed periodically during the year to track actual cash flows against planned movements. This will enable the forecasts to be rolled forward as necessary. This annualised forecast will be based on the University's approved Financial Forecasts.

9.2 An annual report, summarising treasury management activity during the reporting period, will be prepared by the Head of Finance for consideration by the Finance, Employment and General Purposes Committee. The average rate of return on investments made during the reporting period should be measured against average bank base rate over the same period and commentary provided on the return achieved. Commentary on other aspects of activity, including endowment funds and borrowings, will be made as appropriate.

10. Other Matters

10.1 *Banking Arrangements:* the University will bank with a substantial clearing bank. The University will review its banking services contract from time to time, normally after three years and report findings and make recommendations to the Finance, Employment and General Purpose Committee.

10.2 *Training:* The Finance Office staff involved in treasury management will be expected to attend seminars and short courses on relevant topics, with particular reference to legal and regulatory changes. Other staff involved in receipt of income from non-standard sources will be made aware of the risks of money laundering and required to follow appropriate procedures.

10.3 *Audit:* The treasury management function will be subject to internal and external audit in the normal way.

10.4 *Review:* This Policy is subject to review by the Finance, Employment and General Purpose Committee at such intervals as it may from time to time determine, unless agreed otherwise this will usually be every three years.

Annex - Counterparty List

Counterparties are listed on the following Counterparty List. This details the maximum exposures and the limits for deposits of varying durations.

Counterparty List	Counterparty Limits (months)				
	Exposure £m	One or Less £m	>One to three £m	>three to six £m	> six £m
RBS/National Westminster	15	15	6	6	1
Barclays	3	3	3	3	0
Lloyds Banking Group (Lloyds TSB/HBOS)	3	3	3	3	0
HSBC	3	3	3	3	0
Standard Chartered	3	3	3	3	0
Nationwide Building society	3	3	3	3	0
Close Brothers	3	3	3	3	0
Coventry Building society	3	3	3	3	0