



**Northumbria
University**
NEWCASTLE

Treasury Management and Ethical Investment Policy

March 2018

Treasury Management Policy

Introduction

The University's Treasury Management Policy adopts the format of CIPFA's *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (the Code) issued in 2011 which was designed to address best treasury management practice in the public sector, including higher education institutions.

The effective management of treasury activities is of strategic importance to the future success of the University. This policy sets out the framework of how treasury activities are managed at the University to mitigate risk. It contains the University's policies on treasury management at both strategic and operational levels. The policy applies to the University and all of its wholly owned subsidiaries.

Key principles

This Treasury Management Policy addresses three key principles.

Principle 1 - The University Executive has put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

Principle 2 - The University's policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and that responsibility for these objectives has been clearly allocated. The University's appetite for risk forms part of the University's annual strategy, and includes the use of financial instruments for the prudent management of those risks, ensuring that priority is given to security and liquidity when investing funds.

Principle 3 - The pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools in support of the University's business and service objectives, within the context of effective risk management. In balancing risk against return, the protection of capital is the primary driver of the University's approach to treasury management rather than the maximisation of returns.

Treasury Management Policy Statement

The University defines its treasury management activities as:

The management of the University's investments and cashflows, 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.

The University Executive 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 University, with the objective of keeping credit, liquidity, operational, market, interest rate, exchange rate and legal and regulatory risks within the University's risk appetite.

The University Executive acknowledges that effective treasury management supports the achievement of its business and service objectives. It is committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

In addition, the University Executive and ultimately the Board of Governor objectives include:

- Maintaining financial stability and ensuring the University's liquidity needs are fully met;
- Minimising debt funding costs and optimising cash reserves receipts;
- Remaining within the University's agreed Office for Students (OfS) borrowing limits, and
- Ensuring compliance with banking covenants.

Treasury Management Practices

The following Treasury Management Practices (TMPs) are covered within the Treasury Management Policy:

- TMP1 Risk management**
- TMP2 Performance measurement**
- TMP3 Decision-making and analysis**
- TMP4 Approved instruments, methods and techniques**
- TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**
- TMP6 Reporting requirements and management information arrangements**
- TMP7 Budgeting, accounting and audit arrangements**
- TMP8 Cash and cashflow management**
- TMP9 Money laundering**
- TMP10 Training and qualifications**
- TMP11 Use of external service providers**
- TMP12 Corporate governance**

TMP1 Risk management

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy and suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the University's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in Appendix 1.

1.1 Credit and counterparty risk management

The University regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits (Appendix 1.1) reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques*. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

1.2 Liquidity risk management

The University will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or working capital facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives. Working capital facility is listed in Appendix 1.2. The University will only borrow long-term in advance of need where there is a clear business case for doing so and will only do so for the capital programme, to support major costs of change where there is a clear return on the investment, or to refinance future debt maturities.

1.3 Interest rate risk management

The University 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 as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved 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 potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications. The University has made extensive use of interest rate hedging arrangements to mitigate against the risks arising from rising interest rates, as detailed in Appendix 1.3.

1.4 Exchange rate risk management

Although the University does not normally have material exchange rate exposures, it will manage its exposure to fluctuations in exchange rates in order to minimise any detrimental impact on its budgeted income/expenditure levels.

The University transacts in a variety of foreign currencies, with Euros and US Dollars being received and expended in any significant amounts. The University's policy is not to speculate in currencies. It holds small balances of Euros and US Dollars to minimise spreads payable on converting euros to and from sterling. The University will maintain balances in currencies other than sterling only to the extent that payments are due to be made in those currencies.

All foreign currency needed for business travel is ordered only at the time a business trip is approved.

1.5 Refinancing risk management

The University will ensure that its borrowings 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 the light of market conditions prevailing at the time. This will be facilitated by maintaining records of the terms and maturity dates of its borrowings in order to be able to plan any refinancing well in advance.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

1.6 Legal and regulatory risk management

The University will ensure that all of its treasury management activities comply with its Financial Regulations, statutory powers and regulatory requirements. In framing its credit and counterparty policy under TMP1[1] *Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' 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. A comprehensive understanding of the University's own legal powers and regulatory obligations, and those of its counterparties, will be maintained in order to minimise the risk of potential illegal or irregular treasury activities.

The University recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the University.

1.7 Fraud, error, bribery and corruption, and contingency management

The University will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, bribery or 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. The University's Counter Fraud and Bribery Policy, which includes a Fraud Response Plan, can be found on the intranet:

<https://www.northumbria.ac.uk/static/5007/uso/fraudpolicy.PDF>

With additional background information also provided on the intranet:

<https://www.northumbria.ac.uk/about-us/leadership-governance/vice-chancellors-office/governance-services/university-policies-and-procedures/university-fraud-and-bribery-policy/>

Insurance is maintained to indemnify the University against fraudulent acts by its employees. Business continuity and disaster recovery arrangements relating to treasury activities are documented in the Business Continuity plan. These activities are reviewed on a regular basis as part of the external and internal audit plans.

1.8 Market risk management

The University will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.9 Covenant risk management

The University will monitor its loan and facility covenant compliance on an ongoing basis appropriate to the risk. The Director of Finance will report annually to the Employment and Finance Committee and will keep connected parties informed on the covenant status where required. The University will seek to minimise the security requirements of new debt and maximise the opportunities of the existing debt portfolio.

1.10 Inflation risk management

The University will monitor the potential impact of inflation and will report annually to the Employment and Finance Committee on the likely impact of inflation and any mitigation strategies that have been followed.

TMP2 Performance measurement

The University is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the University's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, and of the scope for other potential improvements.

The adoption of a performance measure should not be interpreted as undue pressure on the University to attain a target rate of return. Protecting the value of the University's investment and ensuring adequate liquidity is available to meet operational needs are both more important factors.

TMP3 Decision-making and analysis

The University will maintain full records of its treasury management decisions, and of the facts considered, objectives, processes and practices applied in reaching those decisions. This will aid the understanding of the rationale behind past decisions, assisting those making similar decisions in the future, and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time. These will be filed and retained for the longer of:

- seven years or;
- until the maturity of the treasury transaction to which the records relate or;
- according to the University's statutory requirements for keeping records.

TMP4 Approved instruments, methods and techniques

The University will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Appendix 3 to this document, and within the limits and parameters defined in TMP1 *Risk management*. The University will seek proper advice and will consider that advice when entering into arrangements.

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

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

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution of transactions with counterparties, the transmission of funds, the recording and

administering of treasury management decisions (including accounting for those transactions), and the audit and review of the treasury management function.

Reflecting the small size of the function, responsibilities have been segregated and allocated to postholders as shown in Appendix 4 to this policy.

If, and when the University intends, as a result of lack of resources or other circumstances, to depart from these principles, this will be authorised in advance by the Director of Finance, Head of Accounting in their absence or other member of the Finance Senior Management Team nominated to act for the University, who will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

Any cases where these segregations are not observed without this being planned and authorised will also be reported in accordance with *TMP6 Reporting requirements and management information arrangements*, making clear that these cases had not been pre-authorised by senior management.

The Head of Accounting will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, that appropriate procedures exist for each role and that appropriate arrangements for absence cover are in place. The Head of Accounting will also ensure that at all times those engaged in treasury management will follow the relevant policies and procedures agreed by the University. The Head of Accounting will maintain systems documentation relating to the treasury function, detailing the procedures in place to ensure delivery of the approved policy. These will be reviewed in full on an annual basis, and revised where appropriate

Responsibility for the implementation and regular monitoring of its treasury management policies and practices is delegated to the Director of Finance and the execution and administration of treasury management decisions is delegated to the Head of Accounting, who will act in accordance with this policy.

TMP6 Reporting requirements and management information arrangements

The University will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

Employment and Finance Committee has the following responsibilities in relation to treasury management policy and objectives:

- i. approval and annual review of the Treasury Management Policy;
- ii. monitoring the University's cashflow position;
- iii. oversight of the University's investment activities;
- iv. reviewing the borrowing requirements of the University and recommending borrowing policy and loan facility terms and conditions to the Board of Governors;
- v. appointing and reviewing the performance of the University's Bankers and other professional advisers (other than the internal and external auditors).

The Employment and Finance Committee will request and receive reports as appropriate on its treasury management policy, practices and activities to discharge the above responsibilities. As a minimum Employment and Finance Committee will review the University's Treasury Management Policy every three years, and on an interim basis where there is a relevant change to regulations, the University's organisational structures, the University's risk appetite, or other significant development, in the Strategic Report in the Financial Statements as required under the *Statement of Recommended Practice – Accounting for Further and Higher Education (2015)*.

Examples of non-compliance with the University's treasury management policy statement and TMPs will be reported to the Employment and Finance Committee and, where they constitute a significant breach of financial control, they will be reported to the Audit Committee.

Should any conflict arise between this Treasury Policy and the Financial Regulations, the Financial Regulations take precedence.

TMP7 Budgeting, accounting and audit arrangements

The Head of Accounting will prepare, and the Director of Finance approve and, if necessary, from time to time amend, an annual budget for treasury management incorporated into the finance budget. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The Director of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The University will account for its treasury management activities, for decisions made and transactions executed, in accordance with current UK GAAP, and with statutory and regulatory requirements currently in force including the *Statement of Recommended Practice – Accounting for Further and Higher Education (2015)*.

The University will ensure that its auditors and any other bodies charged with regulatory review will 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 cashflow 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 cashflow and investment management purposes. Cashflow projections will be prepared on a regular and timely basis, and the Head of Accounting will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] *Liquidity risk management*.

The Financial Accountant will the day before each investment maturity collate cashflow information for the following day in order to ascertain the amount available to be invested in the market and the appropriate tenor of that investment. This dealing decision must meet the objectives of generating a satisfactory return on the University's surplus funds whilst ensuring its liquidity needs are met.

The Financial Accountant in his investment decision also needs to take into account:

- the management of interest rate risk in any decision about the length of the deposit period;
- the available investment channels having regard to the available headroom on counterparty credit limits and the rates on offer for each tenor.

Sufficient capacity in call accounts should always be maintained in order to mop up excess cash balances that were not projected and were received too late in the day to invest in the money markets.

Detailed policies on the management of cashflow are included in Appendix 4 to this document.

TMP9 Money laundering

Money Laundering

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 (i.e. monies originating from the proceeds of crime). As described in the University Anti-Money Laundering Policy it will maintain appropriate due diligence and other procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that relevant staff are properly trained. The policy can be found on the intranet:

<https://www.northumbria.ac.uk/static/5007/uso/amlpolicy.pdf>

Further information on the University's approach to Anti-Money Laundering can be found:

<https://www.northumbria.ac.uk/about-us/leadership-governance/vice-chancellors-office/governance-services/university-policies-and-procedures/university-anti--money-laundering-policy/>

Compliance with Sanctions Legislation

The University recognises its legal duties to comply with international sanctions and embargoes, used by Governments to implement international anti-money laundering guidance and to strengthen national controls around transactions which may be linked to money laundering and terrorist financing. The University has a variety of due diligence and other procedures to facilitate compliance with current UK, EU, US and UN sanctions, which is also a condition of the University's banking covenant. Further information on current sanctions and restrictions can be found here.

<https://www.northumbria.ac.uk/about-us/leadership-governance/vice-chancellors-office/governance-services/university-policies-and-procedures/university-fraud-and-bribery-policy/key-information-sources/>

TMP10 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 Head of Accounting will recommend and implement the necessary arrangements.

TMP11 Use of external service providers

The University recognises that, whilst accountability for all treasury management decisions rests with the University, there may be potential benefits from employing external providers of treasury management services in order to gain access to specialist skills and resources. The University does not currently outsource any element of the treasury function or employ third party providers, with the exception of the occasional use of treasury contractors to support specific projects. If it were to do so, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements and the University's procurement standards will always be observed. The monitoring of such arrangements rests with the Director of Finance .

TMP12 Corporate governance

The University is committed to the pursuit of proper corporate governance across all of its activities, 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.

The University has adopted and has implemented the key principles of the *Committee of University Chairs (CUC) Higher Education Code of Governance (2014)*. This, together with the other arrangements detailed in this Policy, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Ethical Investment Policy

The University is committed to ensuring that all investment decisions are made responsibly with the primary guiding principle of generating funds, through income and/or capital growth, with which to further the work of the University. In making investment decisions, environmental, social and governance issues will also be considered. To this end the University will:

- monitor any direct investments to ensure that funds are not directly invested in specific sectors including fossil fuels, arms companies, corporations which are known to be complicit in the violation of international law, tobacco and alcohol;
- not engage in any investment which might hamper the work of the University, either by alienating current students, staff, financial supporters or potential financial supporters, or by having a material impact on applications from potential students;
- screen all investments on ethical grounds, with the proviso that, if the activities of a company are, on ethical grounds, inconsistent with the objectives of the University, then the University may choose not to invest even though this may reduce returns;
- allow members of its community and stakeholders to engage with the Ethical Investment Policy by publishing the policy on the University website.

The scope of this policy focuses solely on direct investments made by the University, and therefore does not extend to non-investment related teaching and learning, research, enterprise or other corporate activities and services.

Relevant disclosure of the University's investments will be included within the University's Annual Report and Financial Statements. A separate declaration in relation to the University Ethical Investment commitments under this Policy will be reviewed and published on an annual basis.

Employment and Finance Committee will provide oversight of the effectiveness of the Ethical Investment Policy, with responsibility for implementation delegated to the Director of Finance. Day to day responsibility shall reside with the Head of Accounting in conjunction with the Sustainability Team, who will be jointly accountable for compliance with the policy and reporting thereon.

As a minimum Employment and Finance Committee will review the University's Ethical Investment Policy every three years, and on an interim basis where there is a relevant change to regulations, the University's organisational structures or other significant development.

Appendix 1 – TMP1 Risk Management

1.1 Credit and counterparty risk management

A balance needs to be struck between focusing investments with counterparties with the best returns and diversifying the investment base to reduce concentration risk and minimise the loss in the event of a failure of any single counterparty. This Policy makes it clear that the protection of investment principal is the overriding investment objective.

In order to respond quickly to market changes the University operates an approach to credit risk management where authority to determine which counterparties the University is authorised to make investments with is delegated to the Director of Finance. To be capable of being so authorised, a counterparty must satisfy minimum short and long-term issuer credit rating criteria. Credit exposures are subject to a limit that varies by credit rating. This maximum exposure includes credit exposures arising from direct cash deposits made, securities issued by the counterparty and any positive mark-to-market values for derivatives the University has entered into with the counterparty.

Any new authorised counterparties will be brought to the Employment and Finance Committee for ratification. If the Employment and Finance Committee is not minded to ratify a new counterparty it shall be closed to investments.

The counterparty credit risk limits matrix is based on issuer credit ratings. These are the general credit ratings related to a counterparty's general ability to meet its financial obligations. These are distinct from issue-specific credit ratings, where the credit rating agencies evaluate the likelihood of payment obligations being met on, for example, a specific bond issue. The short-term rating is a prediction of the counterparty's capacity to meet its payment obligations over the next year, the long-term rating over a longer period. Although the University's expectation is that its investments will be for periods of one year or less the credit rating limits matrix has been constructed on the basis of the most conservative issuer rating, short or long-term, a counterparty has. In practice, this means the limit for a counterparty will be driven by its long-term rating. The credit risk limits matrix is detailed below where for each of the two limit levels all four criteria need to be satisfied for that limit to apply to a specific counterparty:

S&P		Fitch		Credit Limit (£m)
Long-term Issuer Minimum Credit Rating	Short-term Issuer Minimum Credit Rating	Long-term Issuer Minimum Credit Rating	Short-term Issuer Minimum Credit Rating	
≥ AA-	≥A-1+	≥ AA-	F1+	£15m
≥ A	≥A-1	≥ A	≥ F1	£10m

These ratings are reviewed monthly for institutions in which funds are held and before any new funds are deposited. In addition to credit ratings, relevant information from financial advisors and the media will be taken into consideration.

There will be occasions when the balance held in the University's current account and related investment account will exceed the limit implied by its credit ratings on either an intra-day or closing basis as a consequence of the timing of receipts. These instances will not be regarded as limit breaches until the closing balance exceeds the credit limit on a second consecutive day in order to allow for these excess balances to be invested. In addition, a breach will not be imposed if the credit limit has been exceeded solely as a result of accrued interest (to a cap of £100,000).

Where credit ratings fall below the limits set out in the matrix, the University should take appropriate action to divest/withdraw funds from the counterparties and/or allow current investments to mature. In the case the counterparty is the Universities main banker, Barclays, a proposal will be submitted to Employment and Finance Committee to determine action to take and the time required to enact that action.

Acceptable counterparties are limited to EU domiciled and regulated banks and building societies with the appropriate permissions from their home market regulator for the activity the University proposes to conduct with them.

These minimum credit rating thresholds also apply to financial institutions in order for them to be approved for the University to borrow funds from them or execute derivatives with them, acknowledging that the University can take no action where an existing lender's credit rating falls below the threshold.

The current approved counterparties are:

- HSBC Bank plc
- Svenska Handelsbanken AB
- Barclays Bank PLC
- Lloyds Bank plc*
- Bank of Scotland plc*
- Santander UK plc
- Nationwide
- ABN Amro Bank N.V.

The credit limit for members of a group, e.g. Lloyds Banking Group comprising Lloyds Bank plc and Bank of Scotland plc, will be capped at the lower of their individual limit and an overall group credit limit of £15m.

1.2 Liquidity risk management

The University maintains an effective cash and cash flow forecasting and monitoring system which identifies the extent to which the University is exposed to the effects of potential cash flow variations and shortfalls on a daily basis.

The University's main flexible facility is a rolling credit facility. The University's policy is to minimise this facility whilst maintaining sufficient funds available to meet any short-term liquidity needs.

Counterparties	Funding Type	Facility Limit
University's main bankers - Barclays	Revolving credit facility	£15m

1.3 Interest rate risk management

The University is exposed to interest rate risk from changes in interest rates on both its interest income from the investment of surplus cash balances and the interest payable on its bank loans. The University's hedging strategy evaluates interest rate risk arising from its balance sheet as a whole.

The University's hedging of interest rate risk takes two forms:

- It has entered into two long-term fixed rate hedges with its loan provider on a majority of the balance of outstanding loans, and
- The University has significant cash balances. The interest earned on these cash balances is related to the same LIBOR reference interest rate that the unhedged portion of the loan book is priced against. To the extent that the balances match, these cash balances provide a natural hedge to interest rate changes on the unhedged balance of the loan portfolio.

The University's exposure to interest rate risk will be a matter for inclusion in the annual treasury report.

1.6 Legal and regulatory risk management

There are a number of obligations in the University's loan documents that have a University-wide impact and that require central monitoring. These include:

- Financial covenants;
- A requirement to comply with all relevant laws including the obligation to comply with all fraud legislation and international sanctions obligations and to have effective policies and procedures in place to achieve this;
- A negative pledge obligation;
- A prohibition on further indebtedness without the lender's prior approval;
- A restriction on the ability to sell assets;
- An obligation to report litigation;

- A prohibition on corporate reconstructions or changes to the Group structure, including the creation of new subsidiaries, without the lender's prior approval;
- The requirement to seek the lender's prior consent to constitutional changes;
- An obligation to comply with fraud and sanctions legislation and have policies and procedures to ensure such compliance;
- An obligation to comply with all OfS obligations and to report instances where the University has not complied and adverse OfS audit outcomes;
- An obligation to provide ongoing information including the provision of the University's Estates Strategy, budgets, OfS submissions and annual accounts; and
- An obligation to inform the lender of changes to the University's accounting policies.

The Director of Finance will be responsible for monitoring compliance with these obligations, taking appropriate advice from the Head of Accounting, the Head of Legal, and the Head of Governance.

Appendix 2 – TMP2 Performance Measurement

The average rate of return achieved on surplus cash balances invested with counterparties in that month will be formally compared each month to the average of daily 3 month LIBOR. It is expected that a 3-month maturity will be the normal period cash is invested for in order to match the 3 month LIBOR rate payable on the University's loans. If cashflow forecasts indicate a longer period of investment would be possible, and interest rates on offer support it, longer period investments are permitted up to the caps outlined in Appendix 3 to this Policy.

Actual investment rates earned may not consistently match LIBOR as a consequence of:

- the University restricting counterparties it is prepared to place funds with and because of the caps on the amounts it permits to be invested with those approved counterparties, and
- the University's liquidity profile requiring cash to be invested for less than the 3 months covered by the benchmark.

Cash deposits will be reported at the end of each month showing amount, counterparty, period and interest rate offered.

Appendix 3 – TMP4 Approved Instruments, methods and techniques

Investments

The following investment product types are currently authorised for use by the University:

- Bank or building society instant access or notice investment accounts
- Time deposits
- Certificates of Deposit (CD)
- Floating Rate Notes (FRNs)
- Commercial Paper (CP)
- Fixed Rate Bonds, and
- Gilts.

CDs, FRNs, CP Fixed Rate Bonds and Gilts are all securities and may require access to some form of market infrastructure, such as a custody account, to be able to hold them as investments. The University does not currently have such arrangements in place. Accordingly, no investments in these product types may be made until all the operational, accounting, systems and tax implications have been assessed and signed off by the Director of Finance.

After approval has been given to invest in these securities in principle, any individual investment must be approved by the Director of Finance. All such investments must have an active secondary market in order to be able to liquidate such investments and should have an issue (as opposed to general issuer credit rating) of at least AA- from Standard & Poor's and Fitch.

Derivatives

The University is authorised to enter into the following types of derivatives only for the purpose of mitigating risks the University faces:

- Interest rate swaps;
- Interest rate options;
- Interest rate caps and collars;
- Foreign exchange forward contracts and spot trades
- Foreign exchange options

On no account should derivatives be used to enter in to speculative positions.

Any requests to hedge risk through any mode of hedging must be addressed to the Director of Finance in the first instance. The Director of Finance can approve all forms of derivative transaction, such as interest rate swaps, subject to the broader approvals required by the University's Financial Regulations.

Appendix 4 – TMP5 Organization, clarity and Segregation of responsibilities and dealing arrangements

Management delegated authorities

Delegated Power	Exercised By
General	
Approval and review of Treasury Management Policy	Employment and Finance Committee
Approval of instruments, methods and techniques	Employment and Finance Committee
Authorisation of banking and dealing mandates	Employment and Finance Committee
Ratification of changes to authorised counterparties, changes to credit limits and changes to mandates	Employment and Finance Committee
Appointment of new authorised counterparties	Director of Finance or Head of Accounting
Authorisation of terms of reference of external treasury managers	Director of Finance, subject to normal procurement thresholds and tendering procedures
RCF, Loan and Finance Leases	
Unscheduled prepayment of Term Loan	Employment and Finance Committee
Entering in to new, or revising existing, legal agreements for the raising of finance, including lease agreements*	Employment and Finance Committee. Covenant compliance sign-off before execution by Director of Finance
Authorisation of drawdown of funds from the Working Capital RCF	Specific delegated authority in loan agreements – any two of Chair of Governors, Vice-Chancellor and Director of Finance
Repayment of drawdowns made from the Working Capital RCF	Two mandate signatories including Director of Finance
General Banking	
Approval to open bank current account	Director of Finance
Current account payments	Bank mandate signatories Authorised Barclays.net users
Investing	
Approval to open accounts for investment of surplus funds with banks or building societies	Two mandate signatories including Director of Finance
Deposit funds in an investment account with required notice ≤ 95 days	Two mandate signatories including Head of Accounting/Financial Accountant
Time deposit investment for maturity ≤ 95 days	Two mandate signatories including Head of Accounting/Financial Accountant
Authorisation of withdrawals on investment accounts requiring written authorised instructions	Two mandate signatories including Head of Accounting/Financial Accountant
Time deposit investment for maturity > 95 days	Two mandate signatories including Director of Finance
Deposit funds in an investment account with required notice > 95 days	Two mandate signatories including Director of Finance
Investment in securities (certificates of deposit, floating rate notes, commercial paper, fixed rate bonds, gilts) with residual maturity ≤ 1 year.	Two mandate signatories including Director of Finance
Investment in securities (certificates of deposit, floating rate notes, commercial paper, fixed rate bonds, gilts) with residual maturity > 1 year.	Employment and Finance Committee
Divestment of securities (certificates of deposit, floating rate notes, commercial paper, fixed rate bonds, gilts)	Two mandate signatories including Director of Finance
Foreign Exchange	
Entering into and terminating an interest rate hedge (embedded hedge, standalone Interest Rate Swap, standalone Interest Rate Cap or Collar or standalone Interest Rate Option)	Employment and Finance Committee
Giving notice to the counterparty that the University is exercising its option in an embedded Interest Rate or Foreign Exchange Option Contract	Director of Finance
Entering into a foreign exchange forward contract, option or spot sale with nominal value ≤ £1 million.	Two mandate signatories including Director of Finance
Entering into a foreign exchange forward contract, option or spot sale with nominal value > £1 million.	Employment and Finance Committee

*Finance leases under £100,000 balance sheet value per annum can be approved by the Director of Finance.

Withdrawals/deposits will not be split into separate transactions to stay within limits.

Segregation of duties

Reflecting the small size of the function, responsibilities have been segregated and allocated to the following postholders:

Establishing a relationship with a counterparty and associated system set up

The Financial Accountant and Head of Accounting are jointly responsible for the management of commercial relationships with treasury counterparties. The Head of Accounting has responsibility for establishing the dealing contacts and protocols with the counterparty, and for confirming and documenting that the counterparty has the necessary regulatory authorisations to be a counterparty for the University.

Execution and processing

The Head of Accounting will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective and secure transmission of funds.

The member of staff acting as dealer for the University has responsibility for ensuring that deals transacted are compliant with the requirements of this Treasury Management Policy including, but not limited to, whether:

- the counterparty is an authorised institution under the policy;
- the transaction is within the University's credit limits for that institution;
- the transaction executed is for an instrument and maturity that is authorised by the University; and
- the appropriate deal authorisations required by the Policy have been obtained for the transaction type.

All transactions will be evidenced by the counterparty in some form whether that is via a bank statement entry for a movement in to and out of a bank account or via a trade confirmation for a money market time deposit, derivative transaction or FX trade.

These trade confirmations will be delivered to the independent parties in Management Accounts who will then match these confirmations to the University's accounting records on the day the confirmation is received, investigating any differences.

Bank account transfers and deposits will be checked by the Financial Accountant through the daily bank reconciliation check.

The management of payments associated with treasury activity is the responsibility of the Payments Team.

The monitoring of incoming receipts on the maturity of trades is the responsibility of the Financial Accountant.

Access rights management

The concept of "four-eyes" applies to the use of payment systems for treasury activity, currently Barclays.net. All systems administration of user access rights will be subject to dual authorisation, requiring a second systems administrator to authorise any changes to access rights.

Barclays.net will be configured to restrict the ability to generate payments to designated Barclays.net users. All payments made through Barclays.net are required to be authorised for release by a Barclays.net approver.

Recording and accounting

Treasury transactions and trades are recorded by the Treasury Manager in the accounts on the day they are transacted/traded. Exceptions to this are required to be reported to the Head of Accounting.

Bank and nominal ledger account reconciliations

The bank reconciliation will be performed daily and nominal ledger account reconciliations monthly by the Assistant Financial Accountant, they are reviewed by the Financial Accountant.

Credit risk management

A weekly check will be performed by the Financial Accountant to identify any credit exposures that exceed authorised limits. Any identified will be reported immediately to the Director of Finance and subsequently to the next meeting of the Employment and Finance Committee. Remedial action will be co-ordinated to bring the exposure within the University's risk appetite as soon as possible.

A weekly check will also be performed by the Financial Accountant to identify any changes in credit ratings of the University's authorised counterparties. This will be achieved by subscribing to ratings alert services. If any counterparty falls below the minimum ratings criteria set by the University to be an authorised counterparty it will be removed from the authorised list immediately. If there is an outstanding exposure to the institution this will be reported as a credit limit breach, arising from a rating change, according to the protocol noted above. Remedial action will be co-ordinated to bring the exposure within the University's risk appetite as soon as possible. Credit rating changes will be reported to University Executive monthly as part of the Financial Management Report.

The Head of Accounting is authorised to immediately reduce or suspend a limit for any authorised counterparty if information becomes available that calls the financial security or operational competence of the counterparty in to question.

Cash and cashflow management

The annual cashflow forecast produced as part of the University's annual budget process, each month the Head of Accounting/Financial Accountant is required to produce a 6 month rolling cashflow forecast (including a year-to-date comparison of forecast cash balances versus actual balances) for circulation with the FMR. This will be reconciled to the annual cashflow budget.

The Director of Finance and Head of Accounting should be made aware of all forecast negative cash balances. Short-term shortfalls will normally be met from the Working Capital Revolving Credit Facility with the approval of the Director of Finance, the Financial Accountant having previously confirmed that a drawdown is possible under the facility agreement.

The University recognises that the preparation of accurate and reliable cashflow forecasts depends on the provision of information from a number of sources. Given the importance of the forecast to liquidity management the Director of Finance will be responsible for ensuring that appropriate officers are aware of the information required from them to ensure that reasonable estimates can be made, and the associated deadlines for submitting this information.

The Financial Accountant will also produce a monthly summary of the breakdown of funds invested, by product type, maturity and counterparty

In advance of each investment maturity the Financial Accountant will produce a tactical cashflow forecast in order to determine the appropriate investment strategy following the maturity. In preparing the cashflow forecast on which investment decisions are based the likelihood of forecast cashflows materialising needs to be carefully considered in order to avoid scenarios where the non-receipt of incoming funds prevents the University settling its investment trades.

It is reasonable to assume all maturing trades with banks will settle on time. These counterparties would be liable for any direct costs the University incurred as a consequence of not meeting their payment obligations to the University. There may be credit limit consequences of not reinvesting the proceeds of maturities on the day they are expected to be received and these need to be factored in to the investment decision as well. Any settlement failures, howsoever caused, should be reported to the Head of Accounting immediately. Any settlement failure with a cost of £1,000 or over should be reported to the Director of Finance immediately. All financial errors, whether above or below this cost threshold, should be recorded and included in the next treasury report to the Employment and Finance Committee.