

FINANCE AND GENERAL PURPOSES COMMITTEE

Treasury Policy

THE ORGANISATION TREASURY POLICY

- 1 This statement sets out the Organisation's policy concerning investment of surplus monies and raising of capital finance. This policy forms part of the our financial rules and regulations. On adoption a copy shall be forwarded to the external auditors for information purposes.
- 2 **Approved Activities**
 - 2.1 Treasury Management includes the management of all cash, money market and capital market transactions of the Organisation in connection with its cash resources and financing requirements and control of the associated risks.
 - 2.2 All treasury management activities involve risk and potential rewards. The objective for investment or lending purposes is to achieve the best possible return while minimising risk. The Organisation's policy on borrowing is to minimise cost while maintaining the stability of our position by sound debt management techniques. The overriding principle is to limit the risks and within these constraints to maximise returns.
- 3 The Head of Finance and the members of staff designated in Appendix I are authorised by Finance and General Purposes Committee, subject to the provisions of this policy statement to:
 - 3.1 deposit surplus funds with, and purchase certificates of deposit issued by, any of the organisations listed in Appendix II up to a maximum limit specified for each individual organisation; and
 - 3.2 borrow funds subject to the strategy agreed by Finance and General Purposes Committee; and
 - 3.3 operate foreign currency bank accounts to the extent that they are necessary to facilitate the operational activities of the Organisation. Surplus foreign currency funds may also be deposited as described in 3.1 above. Foreign currency exposure currently extends to the holding of dollar (US\$) and Euro balances. All other foreign currency received shall be converted to sterling.
- 4 The Organisation's money shall be aggregated where possible or appropriate, for the purposes of treasury management. However endowment funds may be excepted from this rule where the provision of the endowment provide otherwise.

5 Formulation of Treasury Management Strategy

- 5.1 The Head of Finance will prepare the following for the Finance and General Purposes Committee on an annual basis:
 - 5.1.1 an annual cash flow forecast for the coming year showing surplus funds and loan repayments due.
 - 5.1.2 a strategy for the coming year for the investment of the surplus monies and strategy for funding the Organisation's capital finance proposals. Guidance on the content of the annual financial strategy is set out in 12.2 below.
- 5.2 In preparing the strategy, The Head of Finance and designated staff shall have regard to:
 - 5.2.1 the maintenance of the stable financial position of the Organisation;
 - 5.2.2 the current levels of interest rates and forecasts of future changes;
 - 5.2.3 the policies contained in other planning documents of the Organisation, eg. the annual budget;
 - 5.2.4 the aggregate of all funds, accounts and loans of the Organisation.

6 Investing and Depositing Surplus Funds

- 6.1 The overriding principle guiding the investing of surplus cash balances is the preservation of the capital value of the Organisation's resources.
- 6.2 The Head of Finance has the delegated authority to invest the surplus funds of the Organisation in accordance with the annual financial strategy and in accordance with the terms of this policy statement.
- 6.3 Funds may only be deposited with counterparties with at least the following Fitch IBCA credit ratings:

UK and non-UK banks and financial institutions	Long term	AA
	Short term	F1+
- 6.4 Funds may be placed with non-rated counterparties, which have been specifically approved by F&GP.
- 6.5 There is a nominal limit of £1m that can be deposited with one counterparty. This limit does not include the main bankers of the Organisation. However in the longer term, the Head of Finance should ensure that in the sum total balance of all deposits held in accounts is below the £1m limit.
- 6.6 Brokers may be used to bring the Organisation into contact with approved counterparties. Brokers will be informed of the Organisation's dealing procedures, authorised personnel, approved counterparties and financial limits.
- 6.7 The list of approved counterparties is attached at Appendix II.
- 6.8 The approved counterparty list will be reviewed each F&GP meeting and updated for any changes. This list will be prepared using the list of acceptable counterparties prepared by X Finance Office, who use identical Fitch IBCA credit rating limits to those set out in 6.3 above. Additions may be made to the list only with the approval of the F&GP Committee between meetings. Counterparties may be removed from the list as soon as they are known to have fallen below the specified criteria. Any such removals would be reported to F&GP.

7 Cash Flow and Interest rate exposure

- 7.1 The annual strategy should take into account liquidity requirements as set out in the cash flow forecasts for the year.
- 7.2 Only cash surplus to working capital requirements should be invested.
- 7.3 The Head of Finance is responsible for monitoring the Organisation's interest rate exposure and for determining the interest rate exposure strategy within the limits set by this policy and by the annual financial strategy.
- 7.4 The principal factor governing the exposure of surplus funds to interest rate movements is the Organisation's cash-flow forecast. Where surplus funds are required to meet possible cash outflows in the near future they will necessarily be deposited short-term for periods which will ensure that funds are available.
- 7.5 Any funds surplus to the short-term running requirements of the Organisation should be placed on longer-term deposit to earn higher interest or return. Accurate cash flow forecasting will be used for determining levels of cash for longer-term investment and the appropriate terms.

8 Approved sources of Finance

- 8.1 The Head of Finance in conjunction with the Governing Body will undertake on its behalf the borrowing activities of the Organisation. Specific authority must be obtained from the F&GP Committee for any borrowing. A report will be prepared for approval by the Committee of any new proposals to raise finance. Each proposal will include the details listed in Appendix III.
- 8.2 In raising finance the Head of Finance is authorised to apply to borrow using only the sources and methods set out in Appendix III. When considering raising finance the Head of Finance and designated staff will have regard to:
 - 8.2.1 the Organisation's powers and rules
 - 8.2.2 statutory restrictions
 - 8.2.3 terms and covenants of borrowing
 - 8.2.4 the level of security required for the project
 - 8.2.5 the value of assets already held as security on existing capital projects.
 - 8.2.6 the effects of future movements in interest rates; and
 - 8.2.7 the maximum level of assets that should be provided as security without risking the overall stability of the Organisation.

9 Delegation

- 9.1 The Organisation has drawn up a scheme of delegation for the operation of Treasury policy. This is attached as Appendix I.

10 External Fund Managers

- 10.1 External managers will be appointed with the responsibility for day to day treasury matters relating to some of the Organisation's funds. These will be the most long-term deposits. We will retain full responsibility for the safeguarding of its funds and setting the Treasury strategy. The terms of engagement will clearly demarcate the responsibilities of the Fund Managers together with those of the Organisation's own staff. The will also require the Fund manager to be bound by this policy statement and the annual financial strategy.

11 Legal Issues

- 11.1 Prior to entering into any borrowing or investment transaction it is the responsibility of the Head of Finance and delegated staff to satisfy him or herself by reference (where necessary) to the Organisation's legal advisers, that the proposed transaction does not breach any statute, the Memorandum and Articles of Association or any other of our financial rules or regulations.

12 Review and Reporting

- 12.1 The Head of Finance or delegated staff shall report to each F&GP on the activities of the Treasury management operations. This report would cover:
 - 12.1.1 Analysis of current deposits, loans and investments
 - 12.1.2 commentary on treasury operations since last report
 - 12.1.3 analysis of cash flow compared to budget and comments on variances
 - 12.1.4 any non-compliance with Treasury Policy
 - 12.1.5 any proposed revisions to cash flow forecast or annual financial strategy
 - 12.1.6 changes to the organisations and limits set out in the appendices of the current policy statement.
- 12.2 The annual financial strategy will be reported at the first F&GP of each Financial Year. This would include amongst other things:
 - 12.2.1 cash flow forecasts for the coming Financial Year
 - 12.2.2 details of current loans
 - 12.2.3 proposals to be submitted for information and approval
 - 12.2.4 analysis of current interest rates and some indication of likely trends for the coming year
 - 12.2.5 the extent to which surplus funds are earmarked for short term requirements or to repay existing loans
 - 12.2.6 the extent to which surplus funds should be held available to meet contingencies
 - 12.2.7 the proposed strategy for surplus funds (short & long-term deposits)
 - 12.2.8 proposals for changes to the existing Treasury policy statement.

Appendix 1

Scheme of delegation for Treasury Policy

<u>Delegated power</u>	<u>Exercised by</u>
Approval & amendment of treasury management policy statement	F&GP Committee
Amendments to approved counterparty list	F&GP Committee
Approval of Annual Financial strategy	F&GP Committee
Application of approved strategy	Head of Finance and Finance Officer
Authorisation of investment instructions	Head of Finance and Finance Officer
Authorisation of cash transfers (internal or external)	Cheque signatories (Two)
Raising of Capital Finance	Governing Body and F&GP Committee
Bank and dealing mandates	Head of Finance and Finance Officer
Authorisation of terms of reference for external managers	Head of Finance and Finance Officer
Approval to open bank/building society accounts	F&GP Committee
Authorisation of new accounts	Head of Finance, Finance Officer, Academic Secretary, Administrative Secretary, Director (two signatories)

Appendix II – attached file

Approved Fund Managers

	£
• A	2m
• B	2m
• C	2m
• D	2m
• E	2m

Individual counterparty limit of £1m applies to the total funds placed

Maximum deposits with Individual counterparties

The exception to this being the Organisation's main bankers, where sums in excess of the maximum specified may be placed for convenience and to reduce transaction costs

Overnight and up to 1 month	1m
1 month up to 6 months	1m
6 months up to 1 year	1m
1 year up to 5 years	1m
Over 5 years	1m

Approved Investment Instruments

- Bank deposits
- Certificates of deposit
- Treasury Bills
- Gilts
- Unit Trusts

Approved Bank accounts

- current account
- business premium account
- Euro business current account
- Euro business premium account
- US\$ currency call deposit account
- Prime account (Dudley Seers Fund)
- US\$ Check account
- CAF Gold Account
- Private Bank Sterling deposit account

Appendix III

Matters to be included in Borrowing Proposals

- Borrowing requirements
- Proposed lender
- Interest rate structure – fixed, variable, index-linked, deferred interest etc.
- Interest rate base – base plus lender's margin
- Arrangement fees
- Security arrangements
- Purpose (with cash flows)
- Comparison with alternatives
- Compliance with approved borrowing strategy
- Arrangements for draw-down

Approved sources of Finance

- UK and European Banks
- UK Building Societies
- North American financial institutions
- Leasing Companies
- Insurance companies
- Pension Funds
- Investment and Unit Trusts
- UK companies
- UK Government
- EC Agencies
- UK Local Authorities
- HEFCE and other UK Government Agencies
- UK Bond Market
- UK Lottery agencies
- UK and European trust and charities
- Housing Associations
- Private individuals

Positive approval will be given by the appropriate body in each specific case

Approved methods of Borrowing/Raising of Finance

a) Legal form

- Mortgages secured on property collateral
- Term Loans
- Finance Leases (buildings and equipment)
- Gifts, grants and donations

b) Nature

- Variable linked to base rate
- Variable linked to LIBOR
- Fixed by way of initial fixed rate
- Fixed by use of derivatives (options/swaps etc)
- Index-linked
- Deferred interest