

University of Chichester

Treasury Management Policy

# Approved by the Board of Governors on 24 March 2020

**Background**

* 1. Treasury management is the management of an institution’s cash flows, its banking, and investments to ensure that it has sufficient money available at the right time. It includes the effective control of the risks associated with cash management and the pursuit of optimum returns on cash reserves.
	2. This policy sets out the objectives of the University’s treasury management activities, as agreed by the Board of Governors. It applies to the University of Chichester and any other company in which the University may own a controlling stake in the future.
	3. The University is committed to the principles of achieving best value in treasury management in support of its strategic and business objectives and will seek to employ suitable performance measurement techniques within the context of effective risk management.
	4. Within this framework, the University recognises that as a small institution the resource that can be devoted to achieving optimum performance is limited. The resources allocated to treasury management will therefore be relative to anticipated risks and associated returns.
	5. In making investment decisions, the University places a high level of importance on operating in an ethically responsible manner and accepts that this may have implications for the level of returns possible.

# Context

* 1. The University adopts the key recommendations of the Chartered Institute of Public Finance and

Accountancy (CIPFA)’s Treasury Management in the Public Services: Code of Practice 2009.

* 1. The University’s powers to borrow and invest monies and undertake related transactions are defined in its Memorandum of Association, Articles of Association, and in the regulations passed by its Board of Governors. An agreed Scheme of Delegation sets out which powers are reserved to the Board and which are delegated and to whom.
	2. The University is required to comply with the terms of its funding agreements with, inter alia, the Office for Students, which include specific terms relating to financial commitments.

# Treasury Management

* 1. The Director of Finance (taking expert advice where appropriate) will establish, implement and monitor arrangements for the identification, management and control of treasury management risk. They will report at least annually 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. These measures will achieve the following objectives: -
		1. Liquidity Risk Management

The University will ensure that 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.

The University will keep within any agreed overdraft limits.

* + 1. Interest Rate Risk Management

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

Prior to the undertaking of any new borrowing, the Director of Finance will prepare a report for approval by the Finance and Resources Committee, with recommendations for managing the exposure resulting from that new borrowing.

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.

* + 1. Exchange Rate Risk Management

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

small institution, the University’s normal exposure levels are minimal.

The University will maintain accounts in Euros and US Dollars as material levels of both receipts and payments are made in these currencies. The Director of Finance has authority to approve additional foreign currency accounts if appropriate.

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.

The University is exposed to exchange rate fluctuations in respect of research project income to the extent that bids are submitted and awards made 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 Director of Finance may approve hedging arrangements on a case by case basis.

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.

The Director of Finance will maintain a list of approved foreign exchange brokers.

* + 1. Credit and Counterparty Risk Management (Investments/Cash Deposits)

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

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 Director of Finance will seek the early return of the deposit and will attempt to minimise the breakage costs of the early return.

* + 1. Credit and Counterparty Risk Management (Borrowings)

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

Loan facilities will only be arranged with organisations that are judged by the Finance and Resources Committee to have sufficient financial strength to ensure that 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.

* + 1. Refinancing Risk Management

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.

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.

The University 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.

* + 1. Covenant Breach Risk Management

The University recognises the risk that failure to meet terms set by lenders and other funders may lead to default on loan(s) and the resulting withdrawal of credit facilities. Certain terms may also be secured against the University’s estate. Moreover, default on any individual loan will trigger the cross-default clauses in other loan agreements with the same and other lenders.

The University 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.

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

* + 1. Legal and Regulatory Risk Management

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.

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 on the organisation.

* + 1. Fraud, Error and Corruption, and Contingency Management

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.

The University will maintain cover under its insurance policies against direct financial loss caused by crime.

* + 1. Market Risk Management

The University will seek to ensure that its 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.

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.

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 and Resources Committee approval.

# Liquidity

* 1. The University’s policy is to retain cash balances of at least £1m (inclusive of short-term borrowing facilities) at any one time unless otherwise approved by the Board. There is no maximum limit on the level of cash balances held, but the Board will require assurance that balances of above £5m are being held to meet the agreed objectives of the University and its financial strategy.
	2. If actual balances fall below £1m without prior approval, an explanation of the reasons for this, together with a revised cash flow forecast should be presented to the next meeting of Finance and Resources Committee indicating any impact on liquidity in the short to medium term. Prior approval is deemed to have been given if a monthly cash flow forecast has been presented to the Board demonstrating that cash balances will fall below £1m, and the Board has explicitly approved this element of the forecast in its minutes.
	3. If the University’s cash forecasts indicate that balances will fall below £1m without prior approval for a period of 1 to 3 months the Director of Finance will present a funding and recovery plan to the Finance and Resources Committee, together with a recommendation for any emergency funding required (such as an overdraft facility). The Finance and Resources Committee may approve a

temporary overdraft of up to £2m for up to 3 months without the need for the approval of the Board of Governors.

* 1. Where approval for an overdraft of up to 3 months is required urgently, any two of the Chair of Governors, the Vice-Chair of Governors, the Finance Link-Governor and the Vice-Chancellor may authorise on behalf of the University.
	2. Where an overdraft is required for above £2m or for longer than 3 months, the approval of the Board of Governors is required. Prior approval will have been deemed to have been given where the Board has explicitly approved a cash flow forecast demonstrating the need for an overdraft.
	3. The University’s agreements with its funders require the University to seek their consent in certain circumstances. The Director of Finance shall ensure that such consent is sought where necessary.

# Value for Money and Performance Management

* 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.
	2. Performance will be measured as determined by the Finance and Resources Committee from time to time.

# Budgeting, Accounting and Audit Arrangements

* 1. The Director of Finance will prepare and the Board of Governors will approve an annual budget, which will include income and costs associated with treasury management activities. The matters to be included in the budget will, at minimum, be those required by statute or regulation.
	2. The University will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements in force.
	3. The University will ensure that its auditors, both internal and external, have access to all information and papers supporting the activities of the finance department in respect of treasury management 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.

# Cash and Cash Flow Management

* 1. Unless statutory regulatory, or funder 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 cash flow and investment management purposes.
	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.

# Decision-Making and Analysis

8.1 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 considered at the time.

# Responsibilities and Reporting

* 1. The University will ensure that 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. The Director of Finance will ensure that there are clear written statements of the responsibilities of each post engaged in treasury management and the arrangements for absence cover.
	3. The Director of Finance 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 Vice-Chancellor and to the Chair of the Finance and Resources Committee.
	4. The responsibilities of key parties with regard to treasury management are as follows:
		1. Board of Governors
			+ to review and approve the Financial Strategy on a bi-annual basis;
			+ to consider and approve the annual Budget;
			+ to approve this Treasury Management Policy and any amendments thereto;
			+ to approve the terms and conditions of any proposed borrowing, taking account of the impact of the borrowing, any covenants and provision of security on the overall stability and financial health of the University; and
			+ to approve the delegation of its responsibilities as appropriate.
		2. Finance and Resources Committee
			+ to review and recommend the annual Budget and Financial Strategy to the Board of Governors;
			+ to periodically consider any necessary amendments to this Treasury Management Policy and associated practices, making recommendations to the Board as appropriate;
			+ to receive and review reports on treasury management policies, practices and activities.
			+ to consider proposals for new borrowings and to recommend such proposals to the Board for approval;
			+ to approve Criteria for Short Term Investments (including counterparties, credit limits, maximum term for deposits and approved investment instruments); and
			+ to approve hedging arrangements.
		3. Audit Committee
			+ to receive and review any external or internal audit reports and follow-up action relating to treasury management, and ensure that the Finance and Resources Committee and the Board of Governors are aware of any recommendations or actions that may impact on their deliberations or decisions.
		4. The Vice-Chancellor, the Chief Operating Officer and/or the Vice Chancellor’s Group
			+ to support, review and oversee the activities delegated by the Board to the Director of Finance.
		5. Director of Finance
			+ to prepare a bi-annual financial strategy for review and recommendation by Finance and Resources Committee for approval by the Board of Governors;
			+ to prepare and submit Budgets and budget variations;
			+ to submit appropriate treasury management and cash flow reports to the Finance and Resources Committee and the Board;
			+ to ensure the adequacy of treasury management resources and skills, and the effective division of treasury management responsibilities;
			+ to ensure that procedures relating to the treasury function are fully documented, reviewed, and revised where appropriate;
			+ to submit ad-hoc reports where required to support any proposed new borrowings or other significant treasury management decisions to the Finance and Resources Committee and the Board;
			+ to receive and review management information reports;
			+ to review the performance of treasury management activities, promoting best value;
			+ to confirm bank signatories for the University and its associated entities; and
			+ to appoint and maintain relationships with external service providers.
		6. Head of Financial Services
			+ to administer treasury management policies on a day-to-day basis, adhering to agreed policies and procedures;
			+ to execute transactions;
			+ to maintain treasury management records;
			+ to supervise staff involved in treasury management activities and ensure that they are appropriately trained;
			+ to monitor performance on a day to day basis and submit management information reports to the Director of Finance; and
			+ to identify and recommend opportunities for improved practices.
	5. The following matters should be included in reports to the Board and its Committees:
		1. Annual Treasury Management Report to Finance and Resources Committee
			+ commentary on treasury operations for the year;
			+ cash flow compared with budget and commentary on variances;
			+ updated cash flow forecast, investment plans and commentary on measures put into place to ensure any additional funding requirements for the next financial year are met;
			+ proposed amendments to the treasury management policy statement;
			+ matters in respect of which the treasury management policy statement has not been complied with;
			+ analysis of current outstanding loans, deposits and investments by instrument, counterparty, maturity and interest roll over period; and
			+ proposed amendments to the list of approved counterparties or agents, and to limits attached thereto.

The Annual Report will normally be delivered to the first Finance and Resources Committee meeting following the end of the financial year to which it refers.

* + 1. Annual budget, financial forecasts and financial strategy report

Within the annual report to Finance and Resources Committee and Board of Governors recommending the budget for the following financial year and financial forecasts for at least the following four years, there will be the following information with respect to treasury management:

* + - * cash flow forecast for the following year;
			* forecast of interest to be generated from investments; and
			* identification of capital funding requirements and an indication of how these can be financed.
		1. Periodic Treasury Management Report

During each financial year at least one monitoring report will be submitted to Finance and Resources Committee containing:

* + - * analysis of current outstanding loans, deposits and investments by instrument, counterparty, maturity and interest roll over period;
			* commentary on treasury operations for the period;
			* commentary on the continued applicability of the annual financial strategy and proposals for amendments;
			* revisions/adjustments to the future 12-month cash flow forecast and an estimate of future interest rates and the effect on the annual financial strategy and revenues;
			* proposed amendments to list of approved counterparties or agents, and to limits attached thereto;
			* proposed changes to the treasury management policy or associated schedules; and
			* matters of non-compliance with the treasury management policy.

Additional reports will also be provided during periods of heightened risk at the instigation of the Director of Finance or at the request of the Committee.

* + 1. The Quarterly Monitoring Report presented to the Finance and Resources Committee will

include a section on cash flow compared with the budget and a commentary on variances.

# Staff Training and Qualifications

* 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.
	2. The University will 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.
	3. The Director of Finance will ensure that members of the Board, the Finance and Resources Committee and the Vice-Chancellor’s Group have access to training relevant to their needs and responsibilities.

# Use of External Service Providers

11.1 Where external providers of treasury management services are used in order to acquire access to specialist skills and resources, the University’s standard tendering process will be followed and value for money assessed considering all relevant factors including the cost, quality, reliability and scope of service.

# Money Laundering

12.1 As any institution, the University may be the subject of attempts 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.

# Subsidiary Companies

* 1. Where agreed with their respective boards, balances carried by subsidiary companies to the University may be aggregated with those of the University for investment purposes.
	2. Any borrowing requirements of University subsidiary companies will be met by an internal loan from the University. To the extent that the University is unable to meet those requirements from its own cash flow, any external borrowings will be in the University’s name, as the relevant legal entity. The terms and conditions of any such loan(s) require approval by the University Finance and Resources Committee.

# Schedule of Short-Term Investment Criteria

Short term investments shall be placed only with institutions and instruments meeting the following criteria:

|  |  |  |  |
| --- | --- | --- | --- |
| **Counterparties** | **Minimum Credit Rating** | **Limits** | **Maximum period****of placement** |
| S&P | Moody’s | Fitch |
| University’s appointed banking partner | AA/A1 | Aa/P1 | AA/F1 | £20m | Up to 12 months |
| UK bank, building society or equivalent | AA/A1 | Aa/P1 | AA/F1 | £5m | Up to 12 months |
| Money market funds | AAA/A1 | Aaa/P1 | AAA/F1+ | £5m | Up to 3 months |
| Treasury Bills | N/A | £20m | Up to 12 months |

The Director of Finance is responsible for monitoring the credit standing of approved counterparties. In times of significant generally heightened risk or market turbulence, the Director of Finance is authorised to introduce lower maximum limits and placement periods or withdraw all or part of the relevant funds without the prior approval of the Finance and Resources Committee or the Board of Governors. However, they must report this action and any other actions taken to mitigate the exposure of the University to these increased external risks to the next meeting of the Committee or Board. Protection of the capital sums invested is a higher priority for the University than the level of investment returns. A relaxation of any emergency restrictions will require the approval of the Finance and Resources Committee.

Any other change to the Short-Term Investment Criteria will require the approval of the Finance and Resources Committee on behalf of the Board.

The University may also use a broker or asset manager to invest funds on its behalf. The Finance and Resources Committee, on behalf of the Board, must approve the appointment of any such broker or asset manager and approve the parameters to be followed.