STRANMILLIS UNIVERSITY COLLEGE
A College of Queen's University Belfast

Stranmillis University College

Treasury Management Policy

Version No:	Reason for Update	Date of Update	Updated By
1	Policy Developed	April 2016	Head of Finance
2	Policy Updated – to reflect Internal Audit Feedback	October 2016	Head of Finance
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1. Introduction and Scope

1.1 The Policy applies to the University College and any potential subsidiary companies.

1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice (Treasury Management in the Public Services) defines treasury management as follows:

> ***"The management of the College'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."***

1.3 The terms of the Financial Memorandum (2015) in place between the College and its Sponsoring Department, currently the Department for Employment & Learning (DEL) affecting Borrowing and Financial Investments are included in Appendix A.

1.4 The College has not in the recent past held any endowments, borrowings (including an overall overdraft) or any traded financial instruments.

1.5 Apart from operating:
1) sterling and euro denominated current accounts
2) an interest bearing account into which daily cash surpluses from the main College current account are automatically transferred to and from on a daily basis
3) a sterling current and deposit account held in relation to specific Support Funds received from DEL,

the College only invests surplus College funds into Fixed Term Cash Deposits.

1.6 The Policy assumes that this will remain the position for the foreseeable future however some general principles in relation to endowments, borrowings and equity investments are included within this Policy.

2. Treasury Management Objectives

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

> ***Liquidity risk**:* The Head of Finance is responsible for ensuring that the College has adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable the College to have sufficient funds available which are necessary for the achievement of the College's business objectives.

Interest rate: The Head of Finance is responsible for monitoring, reporting and recommending the College's interest rate exposure strategy to the Finance and General Purposes Committee, and for ensuring that the effect of possible fluctuating interest rates has been incorporated into its annual budgets and cash flow forecasts.

Inflation risk: The Head of Finance is also responsible for ensuring that the effects of inflation are taken into account when preparing the annual budgets and the projected cash flow forecasts.

Exchange rate risk*:* Foreign currency dealings should be entered into only for the transaction of normal College business. The College will retain funds in currencies only to the extent that payments are due to be made in these currencies. Typically this includes Euro funds only which is held in a separate Euro current account. No contractual obligations can be entered into which involve foreign currencies without the prior permission of the Head of Finance, who will assess any risk to the College.

Market risk*:* The Head of Finance is responsible for ensuring that funds invested are protected as much as is reasonable from any adverse fluctuations in the market. He/she will be mindful that the overriding aim that any investment decision will be made so as to ensure the security of the College's capital.

Legal and regulatory risk: The Head of Finance is responsible for ensuring that all of the College's treasury management activities comply demonstrably with its statutory powers and regulatory requirements and that the risk of these impacting adversely on the College is minimised.

Fraud, error, bribery/corruption and contingency*:* The Head of Finance is responsible for ensuring that procedures exist, so that circumstances may be identified and addressed which could expose the College to risk of loss through fraud, error, bribery/corruption or other eventuality in its treasury management activities. Particular attention is to be given to the provisions of the Money Laundering Regulations (2007) and associated legislation such as the Bribery Act (2010), Terrorism Act (2006) and the Proceeds of Crime Act (2002). The College's internal auditors who report directly to the Audit and Risk Assurance Committee will also be able to help protect against the risk of fraud, error and bribery/corruption.

The College's appetite for risk can be described as risk averse. The risk appetite will be assessed on an annual basis and, should this change, the Treasury Management Policy will be reviewed accordingly.

In accordance with the CIPFA Code of Practice - Treasury Management in the Public Services, the College regards a key objective of its treasury management activities to be the security of the principle sums it invests.

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 investment of surplus funds/term deposits, to achieve the following objectives:

(i) to minimise the risk of loss or non-repayment of the principle sum;
(ii) to ensure that the periods for which monies are invested are consistent with the cash flow requirements of the College 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, should the College hold endowments at some future date, or for other long-term purposes to achieve the following objectives:

(i) to minimise the risk of loss or non-repayment of the principle sum;

(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 College, therefore, should the College hold traded financial instruments at some stage in the future, the College 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 College, consistent with the requirements of customers and suppliers' terms of business and good practice.

(d) For borrowings, should the College hold borrowings other than a short-term overdraft in the future, 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 College 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 Principal as Accounting Officer of the University College. This responsibility is exercised on behalf of the Principal by the Head of Finance.

3.2 The Head of Finance may delegate the day to day duties of treasury management, but not the responsibility, to the Finance Manager and other staff within the Finance Department as he/she sees fit.

3.3 The Finance and General Purposes Committee is responsible for advising on College investment policy and monitoring investment transactions undertaken by authorised officers.

4. Procedures for Cash and Temporary Surplus Cash Investments

4.1 The amount and period of any temporary surplus cash investment/term deposits shall be determined by reference to the College's estimated short-term cash flow requirements. For this purpose, the Finance Manager is responsible for maintaining a detailed forecast of cash movements covering at least three months ahead. Finance and General Purposes Committee have agreed that terms deposits should not normally extend for periods of more than 12 months.

4.2 Occasional short-term use of the College's bank overdraft facility is permissible.

4.3 To assist with obtaining the best interest rates, the College will seek to consolidate so far as possible all surplus cash.

4.4 Where the College invests funds itself, the arrangements are that the only approved investment, except for accounts with the College 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;
- 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 and for various durations in order to match the cash flow requirements of the University College.

4.6 Institutions into which money may be invested 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 invested in individual institutions shall be determined by the Head of Finance, in conjunction with the Finance Manager, and approved by the Principal who has been delegated this responsibility by the Finance and General Purposes Committee. Decisions shall be based on balancing the need to maximise the return for surplus cash resources whilst ensuring that sufficient funds are available to meet the operational needs of the College.

4.8 Rates are obtained from a range of suitable institutions on at least an annual basis. Funds are usually but not always invested in the institution offering the very best rates for the proposed investments taking into account the onerous administration involved in establishing deposits with new Institutions.

4.9 Any interest-bearing account facilities offered by the College’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 The following absence cover arrangements will apply in situations where there is an unexpected long term absence of one of the key treasury management roles as follows:

Key Staff Member Absent	Cover Provided By:
Principal	Vice Principal
Head of Finance	Finance Manager
Finance Manager	Assistant Accountant

5. Procedures for Working Capital

5.1 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.

6. Procedures for Borrowings

6.1 An overdraft facility may be maintained for operational purposes. A loan facility may also be arranged, subject to the restrictions as detailed in the Management Statement / Financial Memorandum, and following prior agreement of the Finance and General Purposes Committee for a specific purpose. In both cases their use will be minimised so as to keep costs down. They will not be used for long-term purposes.

6.2 Any proposals for long-term borrowing for funding of projects will be evaluated carefully by the Head of Finance in line with the College's financial plan and the objectives of this Policy, and will not be undertaken without the express approval of the Finance and General Purposes Committee. It will normally be expected that several sources of funds will be evaluated in each case.

6.3 Where necessary appropriate interest rate hedging, through fixed rates, caps, and other non-aggressive instruments, will be undertaken to protect the College 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 and General Purposes 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. Interest rate swaps are not permissible.

6.4 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 the approval of the Finance and General Purposes Committee.

7. Procedures for Foreign Exchange

7.1 Generally the College will seek to keep simple its transactions involving foreign currency.

7.2 The College will generally hold foreign currency only in the anticipation of significant related expenditure or onward payment to organisations or students e.g. British Council or European Union Funding perhaps related to grant or funded projects. For currencies where there are both extensive purchases and sales, the College will keep under review the operation of its Euro bank account with its bank in the UK.

7.3 *Overseas Bank Accounts:* Where a large number of foreign currency transactions are 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 subject to approval from the Finance and General Purposes Committee. In these cases, the College 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 College will take advice from its bank, and its Auditors if appropriate, on how the maximum security of College funds may be achieved. A regular audit of such overseas accounts by Internal Audit will also be arranged.

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

7.5 *Hedging:* The College 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 Head of Finances may approve hedging arrangements on a case by case basis.

8. Performance Management, Forecasting and Reporting

8.1 The College is committed to the pursuit of value for money in its treasury management activities, and to the use of performance measurement and analysis in support of that aim. The treasury management function will regularly review alternative methods of service delivery, and any other potential improvements. The performance of the treasury management function will be measured using appropriate benchmarks.

8.2 The Finance Manager will prepare appropriate cash flow forecasts for the coming year at the start of each College 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 College's approved annual budget.

8.3 An annual report, summarising treasury management activity during the reporting period, will be prepared by the Head of Finance for consideration by the Finance and General Purposes Committee.

8.4 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 treasury management activity will be made as appropriate.

8.5 A report, summarising treasury management activity during the reporting period, will be prepared by the Head of Finance for consideration at each meeting of the Finance and General Purposes Committee. This report will include any instances of non-compliance with the Treasury Management Policy.

9. Other Matters

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

9.2 *Training:* 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 College procedures. The College has developed a separate Anti Money Laundering Policy. The Head of Finance will ensure that governors tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities."

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

9.4 *Review:* This Policy is subject to review by the Finance and General Purposes Committee at such intervals as it may from time to time determine, unless agreed otherwise this will usually be every three years. The College risk appetite will be reviewed on an annual basis. If there is any change in the current risk averse attitude the Policy will require reviewing. In addition, this Policy will require updating should the current situation regarding borrowing change, including the need for a counterparty policy.

9.5 *Corporate Governance:* The College is committed to the pursuit of proper corporate governance throughout all of its undertakings. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

9.6 *Record-Keeping:* The College will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

Dr Anne Heaslett	Date:	October 2016
Principal	Review Date:	October 2019
	For distribution to:	All Staff

Appendix A Management Statement /Financial Memorandum Provisions

The 2015 Management Statement / Financial Memorandum in place between the University College and its Sponsoring Department (currently the Department for Employment and Learning (DEL) at the date of the approval of this Policy) makes for the following provisions which affect the College's Treasury Management Policy.

Borrowing:

Clauses 32 and 33 of the Financial Memorandum states the following:

> The College shall have the power under 7 (1) (l) of the 2005 Order to borrow sums to carry on its activities and to provide security as it sees fit but only with the prior consent of the Department under section 8 (4) (a). The College shall observe the principles set out in Chapter 5 and the associated annexes of Managing Public Money Northern Ireland (MPMNI) when undertaking borrowing of any kind. The College shall seek the approval of the Department and, where appropriate, DFP to ensure that it has any necessary authority and budgetary cover for any borrowing or the expenditure financed by such borrowing. Medium or long term private sector or foreign borrowing is subject to the value for money test in Section 5.7 of MPMNI.
>
> Any expenditure by the College financed by borrowing will need DEL budget cover (provided that this is the normal budgeting treatment for such expenditure). The cash raised by borrowing does not score as negative DEL.

Financial Investments:

Clause 63 of the Financial Memorandum states the following:

> The College shall not make any investments in traded financial instruments without prior written approval of the Department, and where appropriate, DFP. To avoid placing the College at a competitive disadvantage, it is permitted to build up cash balances and net assets in excess of what is required for immediate operational purposes in conformity with standard practice in the higher education sector. Equity shares in ventures which further the objectives of the College shall be subject to Departmental and DFP approval unless covered by a specific delegation.

Appendix B

Glossary of Terms

Bank Rate

The Bank Rate is the official Bank Rate paid on commercial bank reserves, that is, the reserves placed by commercial banks with the Bank of England as part of the Bank of England's operations to reduce volatility in short term interest rates in the money market.

Base Rate

The Base Rate refers to the rate which is set by each high street bank. It is the key factor used to establish their various lending rates to customers. It is normally set at the same rate as the Bank Rate and changes in line with changes in the Bank Rate.

Certificate of Deposit (CD)

A Certificate of Deposit is a bank deposit with a set maturity date and pre-determined, fixed interest rate. Investors receive a certificate which is a negotiable instrument and has a secondary market. The holder of a CD may sell it on to a third party before the maturity date.

Commercial Paper (CP)

Commercial Paper is a short-term note issued by large banks and corporate entities, with a fixed maturity usually between 1 and 270 days. Such instruments are unsecured and usually discounted, although some may be interest bearing.

Counterparty

A Counterparty is a party with whom a transaction is done.

Credit Default Swaps (CDS)

A Credit Default Swap is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a default by the third party on whom the contract is based. The contract essentially provides a means of insurance to the buyer of the CDS against default by a borrower. The “spread” (effectively the premium paid by the CDS buyer) provides an indication of the perceived risk of a default occurring.

Credit Rating

A Credit Rating is an estimate of the quality of a debt from the lender viewpoint in terms of the likelihood of interest and the principle sum not being paid, and of the extent to which the lender is protected in the event of default. An individual, a firm or a government with a good credit rating can borrow money from financial institutions more easily and cheaply than those who have a bad credit rating.

Credit Rating Agency (CRA) Treasury Management Policy

A Credit Rating Agency is a firm that issues opinions on companies’ ability to pay back their bonds. These opinions are often abbreviated on an alpha-numeric scale ranging from AAA to C (or equivalent).

Dealing

Dealing is the process of carrying out a transaction with a Counterparty, including agreeing the terms of an investment. This is usually conducted through a Money Market Broker.

Liquidity

Liquidity refers to an asset that can be turned into cash, or where an asset has the ability to be quickly bought or sold.

Term Deposit (or Time Deposit)

Term Deposit is the generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. They are also set at a fixed rate of interest.

Hedging

Hedging is the process of protecting a transaction from an unwanted movement in foreign currency exchange rates.