Treasury Management Policy

1 Treasury Management Objectives

The University’s overall objectives apply across the institution and its subsidiaries (‘the group’). The objectives are:

- To ensure the most competitive return on surplus cash balances
- To ensure the availability of flexible and competitively priced funding to support the University’s capital programme
- To identify and manage financial risks, including interest rate and foreign currency risk, from all areas of the group’s operations
- To ensure compliance at all times with banking covenants and the HEFCE Financial Memorandum

2 Attitude to Risk

2.1 Funding

2.1.1 The group takes a risk averse approach to funding, given the need to provide funds to support its capital programme as well as recurrent operational cash flows and their seasonal fluctuations. Any long term debt will be incurred only for specific capital expansion plans. The group will accept limited basis/market risk, i.e. that any product or instrument will yield at sale or redemption a lesser amount than was originally invested.

Any additional borrowing by subsidiaries through loans, finance leases, or operating leases, which have not already been approved through their current budget and long term plans, must first be notified to the Director of Finance, who controls the overall limits on borrowing. Meeting these objectives will be through developing long term relationships with a number of major clearing banks.

2.2 Investment of deposits

2.2.1 All temporary cash surpluses (either £ sterling, Euros, or $US) will be held in relatively liquid form and invested for periods less than one year. Deposits may only be placed with the banks with which the University has a relationship or with financial institutions operating from or regulated by jurisdictions in the EU, and carrying a minimum short term rating with any of the following rating agencies:

- Fitch F1
- Standard and Poors A1
- Moody’s P1

Institutions’ credit ratings will be monitored by the finance department to identify any actual or potential changes.

The maximum amount invested with any one counterparty are:

- Major UK clearers (HSBC; HBOS; BARCLAYS; LLOYDS-TSB; RBS) meeting the above ratings - £10million
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- Other institutions meeting the above ratings - £5 million

  Funds may be invested in
  - Treasury Bills
  - Deposits with approved banks and building societies
  - Certificates of deposits issued by approved banks and building societies

2.2.2 Investment of long term deposits.
Any cash surpluses identified as being available for periods greater than twelve months may, at the discretion of the Finance Director, be invested in vehicles such as equity, bonds and property that carry some basis/market risk. Such investments will not exceed £5 million in value.

2.3 Foreign currency

2.3.1 The group policy is to match its non Sterling currency holdings (Euro/ US Dollars) to currency liabilities. Any surplus currency will be converted to sterling as soon as identified.

2.4 Interest rate management

2.4.1 Group policy is to balance the fixed and variable interest rates by considering:
- the preference for certainty with regards to the cost of borrowings, and
- the need to minimise interest costs.

2.4.2 Variations in the required mix of fixed and variable interest rate loans can be achieved by the use of interest rate swaps which effectively fix a proportion of consolidated debt at a known interest rate.

2.4.3 The proportion of debt which is held at fixed interest rates should fall within the range of 50% to 75% of the total debt.

2.5 Banking relationships

2.5.1 The group’s approach is to foster long term relationships with a core number of major banks, and thereby to benefit from mutual confidence and commitment.

2.6 Compliance

2.6.1 The group has a number of financial covenants attached to its borrowings, and must observe the requirements of HEFCE’s Financial Memorandum. Performance against these will be reported to the SMG.
3 Responsibilities

3.1.1 The key components of treasury control including the management of cash, borrowings, and complex financial instruments are:

- Clearly defined responsibilities in the area of treasury activities for the SMG, and the Finance Director, across the University and its subsidiaries.
- Segregation of responsibilities amongst finance staff who deal in financial instruments, those who initiate payments, and those who report on treasury activities.
- Limitations on the use, circumstances and financial value of instruments such as forward contracts and interest rate swaps.
- Regular reporting of all treasury activity.

The responsibilities are structured between the SMG and the Finance Department as follows:

3.1.2 SMG

- To approve external funding arrangements.
- To delegate responsibility for setting procedures and internal controls to the Finance Director.
- To receive reports on treasury activity.

3.1.3 Finance Department

- To monitor credit ratings of financial institutions.
- To prepare forecasts, based upon a combination of the current budget and long term plans, and previous years’ experience of patterns in cash flow.
- To report on actual cash flows against forecast. i.e.
  - Daily / weekly forecasting and monitoring, predicting immediately maturing obligations.
  - Monthly and quarterly reports prepared for short term investment planning.
  - Tactical reporting covering the annual budget as derived from the group Income and Expenditure and Capital expenditure plans. These reports are generated as part of the HEFCE annual monitoring exercise, and are used internally to inform investment and borrowing plans for the year.