Finance Department

Treasury Management Policy

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1. Introduction

The University of York Treasury Management Policy provides a clearly defined framework for those responsible for the treasury operations of the University. The policy is structured such that it allows for treasury operations to be carried out effectively in a controlled risk managed environment providing sufficient flexibility to adapt to a changing environment.

Treasury management operates from within the finance department and is responsible for the following key areas:

- Cash flow management
- Investing of cash surpluses
- Management of foreign currency
- Management of borrowing facilities
- Monitoring and management of compliance with loan covenants
- Endowment investment management

The investment policy is incorporated within this policy as Appendix 1. The purpose of the investment policy is to define a set of principles governing the cash investments of the University.

Also included within this policy is the Endowment investment policy (Appendix 2), which defines the investment criteria for managing endowment assets.

2. Scope

The policy applies to the University and its subsidiaries i.e. the University Group, and excludes any Joint ventures and other business partnerships outside of the University Group. As at 31 July 2019 the University group includes:

University of York
Amaethon Ltd
PCMIS Health Technologies Ltd
The Biorenewables Development Centre Ltd
York Conferences Ltd
York Health Economics Consortium Ltd
York Science Park Ltd
York Sports Village LLP
York University Development Company Ltd
York University Energy Company Ltd
York University Property Company Ltd
Stodham Investments Ltd
Student Accommodation Provision Three LLP

The University of York Pension Scheme is constituted as a separate corporate body with its own board of trustees which is not part of the University Group. The scheme's funds are invested entirely separately from those of the University and are not covered by this policy.

3. Objectives

The specific treasury management objectives of the University group are:

- Maintain financial stability through effective short and long term cash management
- Achieve a competitive return on surplus cash balances within the agreed risk profile
- Ensure the availability of flexible and competitively priced funding to support the University's capital programme
- Identify and manage treasury risks, including interest rate and foreign currency risk, from all areas of the group's operations
- Ensure compliance at all times with banking/ loan covenants
- The treasury management policy should be consistent, under OfS requirement, with the University's Strategic Plan

4. Risk Management

The University of York's approach to risk is set out in the Risk Management Policy, Strategy and Assurance Framework document. The specific risks inherent within Treasury Management and the University approach to each are highlighted below.

4.1 Liquidity Risk

The University manages cash balances and financial affairs to ensure funds are available to meet obligations when they fall due without unnecessary additional costs.

The University operates a detailed cash flow forecasting model aligned to the University financial forecasts. The forecasts are reviewed to ensure consistency with the University's quarterly forecasts and MTP submissions.

Cash flow forecasting is completed in sufficient detail to ensure liquidity requirements are met in the short (1 week - 1 month), medium (1 to 12 months) and long (>12 months) term. Forecasts are reviewed and updated regularly to ensure they reflect the current position and future direction of the University.

4.2 Counterparty and Credit Risk

Security of principal sums invested is a key requirement of the University treasury management policy. The University has a risk averse attitude and seeks to invest in counterparties and products that will not expose the University to more than moderate levels of counterparty risk. It achieves this by

1. Utilising credit ratings to assess the financial strength of the counterparties
2. Diversification of deposits to spread the default risk

The University Investment Policy (Appendix 1) details the requirements of counterparties whom the University is authorised to invest funds with. It also prescribes the investment instruments that are authorised to be used for the investment of funds.

4.3 Interest rate risk

The University seeks to minimise its exposure to fluctuations in interest rates on its borrowings. The University has a prudent approach to financing and investment instruments and primarily seeks to create stability and certainty in its portfolio.

Where additional borrowing is formally approved, the University may consider the use of a hedging facility to manage potential exposure to market movements.

Where the University receives credit interest that is exposed to interest rate movements the University will monitor deposit returns and benchmark against other counterparties to ensure value for money is achieved.

4.4 Covenant breach risk

The University recognises the risk that failure to meet the terms set by lenders may lead to default and the resulting withdrawal of loans or credit facilities. The loan covenants must be monitored regularly.

Covenants must be reviewed during budget/ forecast setting and as part of financial month end reporting. The budget, MTP and forecast setting review is to confirm future plans do not give rise to potential breaches in covenants, and month end reporting will monitor actuals vs covenant limits.

4.5 Exchange rate risk

The University will not expose itself to unnecessary or speculative currency exchange rate risk. University policy is to match non-sterling currency holdings to currency liabilities. Any surplus currency will be converted promptly to sterling at the best rate available. Foreign Exchange deals are required to be authorised by two authorised signatories.

Currency should generally be sold at Spot rate. There is scope for forward currency contracts to be used if they are appropriate. Any forward currency contracts are subject to the approval of the Finance Director.

The University has a need for accounts that hold GBP, USD and EUR. The operation of all currency bank accounts are subject to the approval of the Finance Director.

4.6 Fraud, Bribery Error and Corruption and Contingency Management

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.

The University maintains a Fraud Response Plan detailing the actions to be taken if a fraud is reported or detected.

The University maintains an Anti-Bribery policy detailing how the university expects staff to behave to mitigate acts of bribery. The university encourages reporting of bribery through this policy.

The University will maintain cover under a commercial crime protection insurance policy to protect against direct financial loss caused by crime.

5. Cash and cash flow management

The University manages liquidity through appropriate cash flow forecasting. Cash flow forecasting considers short, medium and long term requirements of debtors, creditors and the University capital programme.

University Group funds can be aggregated for investment management purposes. Group surplus cash can be invested with pre-agreed counterparties with products and for a timeframe as directed within the University Investment Policy.

6. Ethical and sustainable investments

The University routinely invests funds with third party organisations through the regular investment of surplus funds and endowments. Investment decisions will be made in line with the University of York Statement on Responsible Investment.

7. Endowment asset investments

The endowment portfolio follows a different set of investment guidelines to University funds because these funds are held for the long term. The endowment portfolio must still align to the University treasury policy and the University of York Statement on Responsible Investment but not the Investment Policy (Appendix 1)

The Endowments investment policy is included in Appendix 2. This must be reviewed annually alongside the investment policy by the Finance Committee.

8. Borrowings

Borrowings must align to the University finance regulations 7.2 Borrowing and Leasing. Refer to finance regulations for the current guidance.

Where the University seeks to borrow from banks, other financial institutions or the bond market, loan facilities will only be arranged with organisations that are judged to have sufficient financial strength to ensure that funds committed will be available to the University when required in accordance with the loan agreement. The overriding objective is to secure the most flexible and efficient borrowing available within the constraints of the University appetite towards risk and exposure to financial covenants.

The existing Bond agreements (2007 and 2018) both contain several restrictions including

- limit the future borrowing of the University
- prevent subsidiaries from borrowing

Before any borrowing is planned or approved the existing Bonds must be checked by the Treasury Manager to ensure that existing loan covenants are not breached.

9. Leasing

Leases must align to the University finance regulations 7.2 Borrowing and Leasing. Refer to finance regulations for the current guidance.

The University Bonds (both 2007 and 2018) contain clauses that restrict the ability of the University and its subsidiaries to enter leases. Lease values are included in the calculation for some of the financial covenant calculations within the bond agreements. Therefore it is necessary to check with the Treasury Manager before any leases are entered into. If a lease is entered which breaches the Bond agreements then the University may have to repay the Bonds in full.

10. Office for Students

Prior to entering into any financial commitments the University must consult the Office for Students ‘Terms and Conditions for funding higher education institutions’ to establish if they are required to obtain approval from the Office for Students prior to entering into the agreement.

11. Delegated authority/ accountability

The treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

Delegated authority must follow the University scheme of delegation.

12. Treasury management reporting

The University is committed to the pursuit of best value in its treasury management activities and to the use of performance measures in support of that aim. Accordingly, the treasury management function will regularly examine alternative methods of service delivery to ensure best value and will measure its performance using appropriate benchmarks.

Reporting to the University Executive Board (UEB) and the Finance Committee will be on an annual basis covering details of treasury related performance of the University and the investment strategy to be pursued in the coming 12 months.

13. Use of External Service Providers

The University recognises there is potential value in employing external treasury service providers in order to gain access to skills and resources. When it employs such service providers, it will ensure it does so by following the University standard tendering process if required and obtaining value for money. 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.

14. Bank Accounts

The operation of Bank accounts must align to the University finance regulations 7.3 Banking arrangements. Refer to the University finance regulations for the current guidance.

15. 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. The University has an appointed money laundering officer to deal with all aspects of money laundering.

The detailed money laundering policy regarding the University approach to tackling money laundering must be followed.

16. Guarantees

The issuance of guarantees must align to the University finance regulations 7.4 Guarantees. refer to the University finance regulations for the current guidance.

The University Bonds (both 2007 and 2018) contain clauses that restrict the ability of the University and its subsidiaries to enter guarantees. Details of any guarantees must be discussed with the Treasury Manager before they are entered into. If a guarantee is entered which breaches the Bond agreements then the University may have to repay the Bonds in full (£186m).

APPENDIX - 1 Investment Policy

THIS DOCUMENT HAS BEEN REMOVED DUE TO COMMERCIAL SENSITIVITY REASONS AND IS ONLY AVAILABLE INTERNALLY WHERE REQUIRED.

Appendix 2 - Endowment Investment Policy

1. Introduction

Endowment investments are managed separately to the investments of the University's capital. This policy identifies the criteria for endowment investments and defines the principles governing the investment of endowment assets to ensure the proper use of funds received from donors and the need to safeguard them.

This Endowment Investment Policy must be reviewed annually alongside the Investment Policy by the University Finance Committee.

The definitions and classifications of endowments and donations (as per the Statement of Recommended Practice 2019) are:

1.1. Donations

Donation value given to University without restrictions

1.1.1. Donations with No Restrictions

Donations with no restrictions in use include amounts given to the institution by way of cash or asset with no restrictions on how the donation should be used.

1.1.2. Donations with Restrictions

Donations with restrictions will typically include amounts raised through fund-raising programmes under which the general use of the funds is specified, for example to raise funds for science.

1.2. Endowment Funds

An endowment fund is a form of charitable trust retained for the benefit of the institution. Endowment funds must be subdivided into their capital element and an accumulated income fund.

A donation to establish an endowment fund, which prohibits the conversion of capital into income, creates a permanent endowment fund. A permanent endowment fund must generally be held indefinitely. However, where an institution has the power to use the capital element of endowment funds, such funds are known as expendable endowments.

1.2.1. Expendable Endowment Funds

Expendable endowment funds may also exist where the funds donated with a specific restriction are so large in relation to the area of spend to which they relate that they will need to be retained over more than a short period of time. The Statement of Recommended Practice considers that a timeframe of under two years is unlikely to create an expendable endowment.

1.2.2. Restricted and Unrestricted Permanent Endowment Funds

Endowment funds are permanent where the donor has stipulated that the capital element of the endowment fund must be held indefinitely. The investment income from such funds may be restricted in use (restricted permanent endowments) or unrestricted in use (unrestricted permanent endowment), depending on the requirements specified by the donor.

2. Objectives

The endowment portfolio objective is capital preservation combined with a high and growing income and long-term capital growth.

Endowment assets are held for the long term.

The University's endowment investments are held

- for the long term, and
- to generate an income sufficient to fund charitable activities as defined in the terms of the respective endowments.

Moderate fluctuations in capital value are acceptable on the assumption that they lead to higher returns over the longer term.

3. Endowment Investments

The University will assign investment fund managers to the endowment portfolio and draw upon their specialist knowledge on fund markets and products to structure a well-diversified fundholding that meets the requirements of the University endowment portfolio.

Restricted donation funds, and the revenue amounts of permanent endowments, are held in cash as they are likely to be spent within one year. These cash deposits will earn interest at a rate which is comparable to the rate achieved by the other cash deposits held at the University, funds will be invested in line with University Investment policy (Appendix1).

Where donations are held in excess of one year these are permitted to be invested within the endowment portfolio.

Approved assets for endowment investment include:

- Cash, Equities, Bonds and Property,
- Commodities and hedge/absolute funds are permitted on tactical basis only;
- Private equity is **not**

4. Ethical investment Criteria

The investment of endowment funds must be aligned to the University of York Statement on Responsible Investment.

5. Fund Manager

The University must ensure that its fund managers are aware of this policy and have the expertise and capacity to implement it.

Reporting of endowment investments from fund managers should be issued quarterly as a minimum and details of the portfolio must be available upon request.

The University and its Investment managers will conduct an annual review to ensure this investment policy and the University of York Statement on Responsible Investment are being adhered to.

Annually the University will also assess if the investment manager represents value for money. A procurement exercise may be undertaken to improve the performance of the investment manager.

6. Monitoring and Review

Endowment investment and performance will be presented annually to University Executive Board and Council and as requested to other committees.

Glossary

Deposits with approved banks and building societies	Cash deposits with a chosen bank or building society to place funds on deposit until an agreed maturity date at an agreed interest rate.
Deposits with approved money market funds and cash funds (AAA Rated)	Money market and cash funds are low-risk, highly liquid, funds that invest in interest-paying short term debt. Typical investments are treasury bonds, Certificates of deposit and cash. deposits are considered low-risk as they are short dated to provide liquidity.
Certificates of Deposit (issued by entities meeting the credit rating criteria outlined in section 4.2)	Certificates of Deposit are generally offered by banks and they offer interest at a predetermined rate in exchange for a fixed cash value to be deposited for an agreed period of time.
Supranational Bonds, Gilts and Treasury Bills	Supranational Bonds are plain vanilla bond issued by international grouped organisations such as the European Investment Bank and The European Union. A Gilts is a UK government bond issued by HM Treasury and listed on the London Stock Exchange. Treasury Bills are government issued securities, they are generally offered at a discount rather than providing interest on maturity.
Structured Notes	Structured notes are complex investments available through investment specialists that offer a fixed term investment where the amount earned is linked to a specific market i.e. FTSE100.
Corporate bonds (subject to the credit rating criteria outlined in section 4.2)	Corporate bonds are issued by companies that are looking to raise capital. In return you an initial cash deposit investors will receive interest at an agreed rate.
Diversified Multi-Asset Class Portfolio	A multi asset class portfolio offers investment over a combination of asset classes. These investments offer diversification through the investment and as a result risk when compared to holding a single asset class. Investments can be selected according to the investors risk tolerance.