



Treasury Management Policy 2021-22 and 2022-23

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Reviewed by :

Approval date: 28th March 2022

Version 1/22

TREASURY MANAGEMENT POLICY

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1. Introduction

This policy is intended to cover the Treasury Management activities of the College.

2. Approved Activities of the Treasury Function

The College has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) definition of treasury management activities [*CIPFA Code of Practice for Treasury Management in the Public Services updated in 2011*]:

‘The management of the Group’s Cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with these risks’.

The Corporation approves the College borrowing and investment strategy, including all loan agreements.

The Executive Director of Corporate Services is responsible for the implementation of loan agreements, including drawdown of finance, arranging fixed charges, compliance with covenants and for the investment of cash balances within the parameters set out by this Policy.

3. Formulation of Treasury Management Policy

In drafting this policy, the College is seeking to adhere to the four principal drivers of policy:

- compliance with statute, regulation and best practice
- security of financial assets
- provision of adequate liquidity to meet financial obligations
- effectiveness and efficiency in the use of financial resources

The combination of these principles is weighted towards minimising risk, preserving asset values and liquidity levels while minimising costs within these parameters.

While this policy outlines the general approach towards Treasury Management, the Financial Strategy will be approved on an annual basis.

4. Approved Methods of Raising Capital Finance

The primary means of raising finance are:

- Long term fixed rate loan
- Short term fixed rate loan
- Lease finance
- Bank overdraft

In general, the College will obtain almost all its long-term financing from long term conventional debt since this is available from a mature funding market at competitive margins.

Short-term loans and overdraft finance may be used where this provides cheaper or more flexible funding.

The quantum of overall debt will be determined by the College's ability to meet total debt charges, with due regard to the interest rate risk referred to in Section 7. The College Financial Forecast (particularly the Cash Flow Statement) will reflect this requirement.

5. Approved Sources of Finance

The College will look to established banks and building societies active in the education funding market for its long-term facilities.

In addition, the College may consider sources of lease finance for small funding requirements (e.g. IT and other equipment replacement upgrade programmes), although this is generally more expensive than conventional debt finance and therefore less attractive.

6. Approved Financial Counterparties

Building and other capital project requirements will generally mean that the level of surplus cash will fluctuate, particularly during building construction periods and the summer period (when Accommodation remodelling and IT and other equipment procurement is usually undertaken).

The College will invest surplus funds with either

- UK based banks (which term shall be interpreted to include building societies) or
- UK regulated Money Market Funds

Funds within banks shall meet all of the following:

- Individual deposits shall be no longer than 14 months (notice or fixed term) in Sterling Deposits, UK Gilts or Government Investment Bonds
- Investments will be planned to ensure that deposits reach maturity at intervals throughout the year.
- There shall be a maximum counterparty limit of £5m, and investment will be managed to ensure a spread of risk among different institutions.
- For day-to-day operational reasons, for the Corporation's principal clearing bank up to £2m shall be added to the counterparty limit. However, this additional £2m shall not be used for an extended period.
- Any counterparty shall have a long-term credit rating of not less than A3 (Investment Grade) or equivalent as defined by Moody's or Standard and Poor's

Funds within Money Market Funds, shall meet all of the following:

- They shall hold a long-term Aaa or AAA rating from Moody's or Standard and Poor's
- There shall be a maximum holding of £3m per individual fund, £5m per fund manager and £7m for all funds in total.

In managing counterparty risk, the College will ensure that its approved counterparties and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in the Treasury Management Policy.

7. Types of Financial Instruments

There is a risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the College's finances, against which the College has failed to protect itself adequately.

Along with the approved types of finance outlined in paragraph 4 above, the College may consider the use of interest rate swaps, collars, caps and floors to mitigate the impact of potential interest rate fluctuations (interest hedging). Swaps entail interest-rate risk, where the receiving counterparty (in a fixed payment contract) profits if the interest rate falls and loses if interest rate rises, conversely, the paying counterparty profits if the rate rises and loses if the rate falls.

However, it is intended that such instruments will be entered into using the current lenders and that such instruments will be embedded within existing loan agreements. All such arrangements will only be entered into with the full approval of the Corporation.

8. Use of External Intermediaries

The College does not use brokers or fund managers since the majority of its cash deposits are relatively straightforward and short term. However, the College recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. 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. Where services are subject to formal tender or re-tender arrangements, legislative requirements will be observed. The monitoring of such arrangements will rest with the Executive Director of Corporate Services.

The College will always use a financial advisor if the use of a more complex Financial Instrument (see Section 7 above) is contemplated, subject to the prior approval of the Corporation to the underlying proposal or transaction, who will refer them to the Board.

9. Internal Delegation of Authority

This will be in accordance with the Financial Memorandum and the College's Financial Regulations but will include:

<i>Activity</i>	<i>Endorsement/Approval</i>
New Loans	The Corporation
Finance Leases	The Corporation
Charging of Properties	The Corporation
College Treasury Policy	The Corporation
Annual Financial Strategy	The Corporation
Interest Hedging	The Corporation
Overdraft facility	The Corporation

10. Liquidity Policy

The College will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

To that end, the Annual Financial Strategy will include a target month end cash balance. Liquid funds shall be arranged to meet the planned monthly net cash outflow excluding inflows from major capital projects (as revised from time to time) plus £2m. If the planned net cashflow in the period is positive, then liquid funds of £2m will be held. Any surplus funds less £2m would be invested in deposit accounts.

Surplus cash balances are invested in interest bearing bank accounts or on the money market (including via AAA-rated money market funds) to maximise income for the College subject to prudential management of risk (with reference to other provisions of this policy).

The Executive Director of Corporate Services will be responsible for the regular reporting of debtors and creditors to the board.

A debt collection agency will be used for individual debtors in accordance with procedures agreed by the Executive Director of Corporate Services.

Creditors will be settled in accordance with invoice terms, except where the amounts are in dispute. Where specific terms are not given settlement should be made within one month. Payment performance will be reported in the College Financial Statements (subject to the requirements of the Statement of Recommended Practice (SORP) for the Sector).

11. Risk Management

The Treasury Management Policy and Annual Financial Strategy is to be consistent with the College Risk Management Policy and Strategy.

The key types of risk associated with this policy are outlined at Appendix 2. These are:

- Liquidity
- Interest rate
- Inflation
- Credit / Counterparty
- Refinancing
- Legal / Regulatory
- Fraud, error and corruption
- Market

12. Value for Money and Performance Measurement

The College is committed to the pursuit of best value in its treasury management activities, within the framework set out in its Treasury Management Policy statement.

Accordingly, the treasury management function will be subject to regular analysis of the value it adds in

support of the College's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery and of the scope for other potential improvements. The performance of the treasury management function will be measured using information published by external sources from time to time, to benchmark the performance and costs of treasury management activity. The results of this benchmarking will be included in the Annual Value for Money Report.

13. Money Laundering

The College 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. Accordingly it will maintain procedures for verifying counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the officer to whom the reports should be made, will be detailed in the College's Financial Procedures.

14. Policy Review and Reporting

An Annual Financial Strategy will be prepared which will incorporate a review of this Policy. In addition, Treasury activities will be reported in the monthly Management Accounts, including:

- Cash flow forecast
- Aged Debtors report
- Month-end balances with banks and Money Market Funds along with counterparty limits.

15. Banking Services

The College currently makes use of the banking facilities provided by Lloyds plc.

The College will from time to time re-tender for the provision of day to day banking services. Any appointment will, in the first instance be for a period not exceeding five years.

Mark Sellis
Executive Director of Corporate Services
February 2022

APPENDIX 1

Moody's credit ratings guide

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Baa	Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.
Ba	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

- The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category;
- the modifier 2 indicates a mid-range ranking; and
- the modifier 3 indicates a ranking in the lower end of that generic rating category.

Standard and Poor's credit rating guide

Investment Grade

- AAA: An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.
- AA: An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.
Includes: AA+: equivalent to Moody's Aa1 (high quality, with very low credit risk, but susceptibility to long-term risks appears somewhat greater)
AA: equivalent to Aa2
AA-: equivalent to Aa3
- A: An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
Includes: A+: equivalent to A1
A: equivalent to A2
A-: equivalent to A3
- BBB: An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

APPENDIX 2

Definitions

Liquidity Risk

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional, unbudgeted costs, and that the College's business/service objectives will be thereby compromised.

Interest rate risk

The risk that fluctuations in the level of interest rates create an unexpected or unbudgeted burden on the College's finances, against which the College has failed to protect itself adequately.

Inflation risk

The risk that prevailing levels of inflation create an unexpected or unbudgeted burden on the College's finances, against which the College has failed to protect itself adequately.

Credit and Counterparty risks

The risk of failure by a third party to meet its contractual obligations to the College under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness and the resulting detrimental effect on the College's capital or current (revenue) resources.

Refinancing risk

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the College for those refinancing, both capital and current (revenue) and/or that the terms are inconsistent with prevailing market conditions at the time.

Legal and regulatory risk

The risk that the College itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the College suffers losses accordingly.

Fraud, error and corruption, and contingency management risk

The risk that the College fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealing, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

Market risk

The risk that, through adverse market fluctuations in the value of the principal sums the College invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.