



TREASURY AND INVESTMENT MANAGEMENT POLICY AND PROCEDURES

1.0 INTRODUCTION

- 1.1 This document sets out the policy for the University and its subsidiary companies concerning raising capital finance and investment of surplus funds. It also deals with internal movements of surplus funds between accounts established by the University, and loans relating to joint ventures, spin-outs and other companies with which the University is associated.

2.0 TREASURY AND INVESTMENT MANAGEMENT POLICY

- 2.1 Treasury management comprises the University's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.
- 2.2 All treasury management activities require the management of risk. The policy of the University with respect to borrowing is to establish sufficient loan facilities at serviceable cost, which, in conjunction with approved use of University investment funds, enables the University to fulfil its operational and capital development and strategic objectives. The investment objective is to optimise returns while meeting the overall need to protect the capital sum.

3.0 ROLES AND RESPONSIBILITIES

- 3.1 The University has drawn up and approved a scheme of delegation for the operation of this policy, a summary of which is set out in *Annex A*. The Chief Financial Officer and the designated officers are authorised by Council subject to the provisions of the policy statement, to:
- (i) deposit surplus cash funds of the University in line with the provisions of *Annex B*
 - (ii) borrow funds subject to formal agreement by the Business Review Committee

4.0 TREASURY AND INVESTMENT MANAGEMENT PROCEDURES

- 4.1 The following procedures are required to ensure the application of the policy. It is the responsibility of the Chief Financial Officer to ensure such procedures are adhered to. The main procedures are:
- (i) managing and reviewing the University's borrowing facilities, their related covenants and interest rate exposure
 - (ii) preparing a strategy for funding the University's capital finance proposals (as and when required)
 - (iii) managing investments

- (iv) preparing long term cashflow projections on a regular basis, including cashflow projections submitted to OFS as part of the annual long term financial forecast

4.2 In carrying out the above procedures, the Chief Financial Officer will have regard to:

- (i) the University's need to maintain a stable financial position and to ensure that it has appropriate facilities available to meet its capital and interest repayments;
- (ii) funding needs arising from uncertainties inherent in the planning process and from the timing and amount of cash flows;
- (iii) the current level of interest rates and forecasts of future changes in interest rates.
- (iv) policies contained in other planning documents within the University for example:
 - (i) the strategic plan
 - (ii) the revenue budget and capital programme
 - (iii) the estates strategy
 - (iv) working capital management, including debt collection policy and policy on creditor payments, and payroll
- (v) the aggregate of all funds, loans and accounts operated by the University, and the dates of any loan and interest rate hedge contract maturities.

4.3 The Chief Financial Officer will report the University's cash position to the Business Review Committee. This includes rolling cashflow forecasts submitted as an annex to the management accounts. In addition, where applicable the Chief Financial Officer will report any significant related issues to the Business Review Committee.

4.4 The Chief Financial Officer will make arrangements for short term overdraft facilities as necessary to smooth large variations in cashflow within limits set by the University from time to time. If an overdraft facility is deemed necessary, then a request to operate such a facility must be submitted to, and approved by, the Business Review Committee. This request should include full details of how the overdraft is intended to be used, the full costs of the facility requested and details of any assets pledged against the facility.

4.5 The Chief Financial Officer will maintain a detailed treasury and investment procedures manual which sets out the systems and procedures which are in place to ensure delivery of this policy.

5.0 APPROVED METHODS OF RAISING CAPITAL FINANCE

5.1 The Chief Financial Officer will arrange the borrowing requirements of the University on behalf of the Council, under authority delegated by the Vice-Chancellor who is the designated officer by OFS. The Chief Financial Officer cannot commit to any particular borrowing for capital purposes without obtaining the specific authority of Council through its approval procedures.

The Chief Financial Officer will make recommendations for approval by the Business Review Committee for any new proposals to raise capital finance and assess the impact of forecast interest rates on these proposals. The borrowing requirements should take account of:

- (i) the University's constitution and rules;
- (ii) statutory restrictions;

- (iii) the requirements of the financial memorandum with the funding council; and
 - (iv) terms and covenants of borrowing and any associated legal agreements.
 - (v) The Chief Financial Officer is responsible for monitoring the University's interest rate exposure and for managing interest rate hedging arrangements with regard to University borrowing.
- 5.2 The Chief Financial Officer will prepare for the Business Review Committee, a report for each proposed capital borrowing, incorporating a risk assessment covering both the proposed development and the effect on the University's financial position.
- 5.3 The Chief Financial Officer is authorised to draw down funds from the approved borrowing facilities.
- 5.4 Covenants and other specific requirements will be considered in context of the University's strategic and financial plans. Compliance with these will be reported annually to the Business Review Committee as part of the Treasury Investment Management Report. The Business Review Committee will be notified immediately of any concerns regarding the University's ability to meet such terms.
- 5.5 The Chief Financial Officer will maintain comprehensive records of all borrowing and lending arrangements.

6.0 INVESTMENT OF SURPLUS CASH

- 6.1 Surplus cash is the cash available on any given day, which is to be maintained in order to meet short term liabilities.
- 6.2 The overriding principle guiding the investing of surplus cash balances is to preserve the capital value of the invested cash. The Chief Financial Officer has delegated authority to invest surplus funds in accordance with the terms of this policy.
- 6.3 Funds may only be invested with the organisations and subject to the limits set out in *Annex B* of this policy.
- 6.4 The Chief Financial Officer is responsible for monitoring the creditworthiness of approved deposit takers using appropriate external sources of information including credit agency reports and limiting exposure below the approved limits where appropriate. Individual limits can only be exceeded with the prior consent of Business Review Committee, with a report of the circumstances being presented to the next meeting of Council.
- 6.5 The Chief Financial Officer will maintain full records of deposit decisions.

7.0 LONG TERM INVESTMENTS

- 7.1 Long terms investments relate to University funds which are managed by the University's Strategic Investment Advisors. These funds are generally medium to long term investments, but can include any other funds which are not required to meet short term liabilities.
- 7.2 It is the University's policy, as agreed by the University Council, that the University will acquire the services of an independent Investment Strategy Advisor to advise on general investment strategy and to identify external fund managers to deliver the strategy. The responsibilities of the Strategic Investment Advisor are included as *Annex C* of this document. The Strategic Investment Advisor will operate within the constraints of all relevant University policies which cover investment which will be provided to them by the Chief Financial Officer.

- 7.3 If the external fund managers recommend that part of the long term funds be invested in cash investments, such investments can be managed by the University in order to obtain a preferential interest rate. Such cash investments managed by the University should be managed in accordance with *Annex B* of this policy. Cash Investments outside of the rules of *Annex B* require formal approval by the Business Review Committee, with a report being presented to the next full meeting of Council.
- 7.4 Any relationship with Strategic Investment Advisors will be managed to secure the optimum benefit for the University. Relationships will be subject to periodic review and may be subject to periodic re-tendering to maintain value for money.
- 7.5 All non-cash investments recommended by the Strategic Investment Advisors, and then invested by External Fund Managers, fall outside the scope of *Annex B*. Such investments should follow the Investment strategy approved by the Business Review Committee.
- 7.6 A report titled the 'KRF Investment Management Report' is submitted to the Business Review Committee on an annual basis. This report specifically updates the Business Review Committee on the latest position, and any matters of significance with regard to the investment of the funds originating from the securitisation deal, and the performance in terms of return from such investments.

8.0 TREASURY AND INVESTMENT MANAGEMENT REPORT

- 8.1 The Chief Financial Officer will submit a Treasury and Investment Report on an annual basis to the Business Review Committee. This report will cover the previous academic year, and is designed to draw any significant matters to the attention of the Business Review Committee as appropriate.
- 8.2 The report will include the following standard content:
- (i) confirmation of adherence to the Treasury and Investment Management Policy
 - (ii) a summary of confirmed, agreed amendments to the Treasury and Investment Management Policy
 - (iii) the average interest rate achieved through the depositing of surplus cash
 - (iv) details of borrowing facilities, and the use of such facilities, including overdrafts, during the year
 - (v) confirmation of adherence to covenants on existing borrowing facilities

9.0 LEGAL ISSUES

- 9.1 Prior to entering into any borrowing or investment transaction the Chief Financial Officer will ensure legal and professional advice is taken as necessary, and that the proposed transaction does not breach financial regulations or the requirements of the financial memorandum with OFS or any terms and covenants concerning borrowing or leasing. The University's authorised signatories will, in addition, need to be satisfied that all necessary steps have been taken and that any proposed transaction is in accordance with the Statutes.

10.0 EXCHANGE RATE RISK MANAGEMENT

- 10.1 The University maintains funds in Euros and Dollars where there is a future requirement to pay out or report the spend of the funds in the foreign currency to minimise any exchange rate risks. The University does not borrow funds denominated in a foreign currency.

11.0 UNIVERSITY, SUBSIDIARY AND ASSOCIATED COMPANY LOANS

- 11.1 The policy of the University on internal movements of cash and loans is to ensure that each Company is able to meet its needs for working capital and capital investment and, at the same time, that the University maximises its return on surplus funds.
- 11.2 All external loans taken out by any Company within the Group, and which place a commitment upon the University, must be approved by Council including those loans relating to joint ventures and spin-outs or other activities where the University or its associated companies may be required to enter into financial commitments and obligations.
- 11.3 Financial control will be exercised at a corporate level for all Companies forming part of the Group. Companies will not normally budget for a financial deficit unless approved by the Business Review Committee.
- 11.4 Pump priming funding may be made available to newly established subsidiaries in the initial years of operation at levels approved by the Business Review Committee on a case by case basis. Strategies will be developed to recover any deficits within an approved time scale.
- 11.5 Companies within the Group, including the University, may make and receive unsecured internal loans from time to time in order to support the cash needs of other Companies within the Group. The levels will be approved by the Business Review Committee having regard to the budget and cash flow requirements of each Company.
- 11.6 The Business Review Committee will determine and will periodically review the rate of any interest to apply to group loans.

12.0 ACCOUNTING AND REPORTING ARRANGEMENTS

- 12.1 The Chief Financial Officer will prepare an annual budget which will include income and costs associated with treasury management activities.
- 12.2 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 at the time.
- 12.3 The Chief Financial Officer will ensure that the University auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function 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.
- 12.4 As part of the Corporate University management accounts pack, the University will report its current liquidity and investment position in conjunction with gearing and debt information.

SCHEME OF DELEGATION FOR TREASURY POLICY

Delegated power	Exercised by
approval, monitoring and review of treasury management policy statement	Business Review Committee
amendment of list of approved organisations and limits	Business Review Committee
application of Treasury Management Policy	Chief Financial Officer
treasury dealing with counter parties	Chief Financial Officer/designated members of Finance Directorate*
authorisation of cash transfers	Chief Financial Officer/other authorised signatories as per bank account mandates
borrowing and lending documentation	Chief Financial Officer under authority of Business Review Committee
bank and dealing mandates	Chief Financial Officer under authority of Business Review Committee
authorisation of terms of reference of external managers (re: University surplus cash)	Chief Financial Officer under authority of Business Review Committee
authorisation of terms of reference of external managers (re: KRF securitisation funds)	Chief Financial Officer under authority of Business Review Committee, as delegated by Council

****Designated Members of Finance Directorate****

Chief Financial Officer

Head of Research and Treasury Administration

Research & Treasury Accountant

APPROVED COUNTERPARTIES:

Named Approved Counterparties

University funds may be invested in the following named counterparties, providing they meet the Credit Ratings stipulated below for counterparties.

The total limit for the named counterparties is £12 million, although individual investments can only be made in line with the limits and time periods stipulated below.

Instant Access, or accounts with notice periods of less than 10 days, can be used to deposit up to the full £12 million.

National Westminster Bank
Barclays
HSBC
Lloyds Banking Group
Santander UK

Other Banks and Building Societies

University funds, up to a maximum limit of £5 million, may also be invested in any organisation that meets the criteria below:

Short Term Credit Rating

The organisation must have a minimum short term credit rating of either:

F1 with Fitch
or
P-1 with Moody's
or
A-1 with Standard & Poor's

and must not have a short-term credit rating lower than F2, P2 or A2 with ANY of the three above mentioned credit rating agencies.

F1, A1 and P1 are short term, excellent credit quality ratings for financial institutions. These criteria are satisfactory for investments which are classed as Instant Access. Instant Access includes longer term investments which can be 'broken' / withdrawn at any time, without any penalty charge or loss of interest.

Long Term Credit Rating

For investments which are not classed as Instant Access, depending on the term, and the amount of the investments, the organisation must have a minimum long term credit rating, as detailed in the tables below.

The long term credit rating must be met for at least two of the three rating agencies.

Standard & Poor's and Fitch

		Amount of Investment				
		Up to £1 Million	Up to £2 Million	Up to £3 Million	Up to £5 Million	Up to £10 Million*
Term	Up to 1 Month	A-	A	A	A+	AA-
	Up to 3 Months	A	A	A+	A+	AA-
	Up to 6 Months	A	A+	A+	AA-	AA-
	Up to 12 Months	A+	A+	AA-	AA-	AA
	Over 12 Months	A+	AA-	AA-	AA	AA

Moody's

		Amount of Investment				
		Up to £1 Million	Up to £2 Million	Up to £3 Million	Up to £5 Million	Up to £10 Million*
Term	Up to 1 Month	A3	A2	A2	A1	Aa3
	Up to 3 Months	A2	A2	A1	A1	Aa3
	Up to 6 Months	A2	A1	A1	Aa3	Aa3
	Up to 12 Months	A1	A1	Aa3	Aa3	Aa2
	Over 12 Months	A1	Aa3	Aa3	Aa2	Aa2

(*Note - £12million limit applied to named counterparties only)

For the purpose of the above limits, where counterparties operate alongside other counterparties within a group structure, the individual financial limit applies to the group as a whole. If credit ratings for the individual counterparty are unavailable, then the credit ratings of the banking group to which the counterparty belongs, can be considered relevant.

Counterparty limits refer to the capital investment, excluding interest. If interest credited to an account causes the account balance to grow above the counterparty limit, this is not considered a breach of the Treasury Management Policy. However, when such instances have been identified, the interest should be withdrawn and credited to the University current account.

Each individual investment with the same counterparty can be considered within the limits of the above table only where the counterparty is one of the named approved counterparties.

Counterparties and limits may be amended with the approval of the Business Review Committee.

If it is not possible to spread the University's surplus funds across relevant counterparties, staying within the limits of the Treasury & Investment Management Policy, remaining surplus funds will be held by the University's day to day bankers (National Westminster Bank).

Monitoring of Credit Ratings

The Chief Financial Officer is responsible for monitoring the credit standing of approved counterparties.

Credit ratings of counterparties must be checked before every deposit is made.

Credit ratings for counterparties with which the university has funds invested must be checked on a monthly basis, and a report will be reviewed by the Chief Financial Officer detailing the ratings and investments held.

Balances under £1,000 can be maintained in any counterparty which has been downgraded, in order to keep the account active in readiness to deposit funds should the credit rating be upgraded in the future.

UK Counterparties

Any UK based counterparties dealt with must be included on the Financial Service Authority's list of Linked deposits for the purposes of the Financial Services Compensation Scheme (FSCS).

Legal Set-Off

In instances where the University wishes to invest surplus funds in a counterparty with whom the University has loan facilities, it may be possible to obtain a legal 'set-off' agreement. Such an agreement would state that in the event of default, the University's investment would be used against the balance of any loan facilities. Any 'set-off' agreement would be subject to review and approval by the University's legal advisors.

If such an agreement is in place, the counterparty limit can be increased by the balance of any loan facilities in place. For longer term investments, the future repayments should be considered when calculating the relevant loan balance to use.

Day to Day Bankers

In the event that the University's Day to Day bankers fall outside of the above requirements, funds held with the bank should be reduced to a total of £5m across all Sterling Accounts. If the short-term credit rating drops below F2, P2 or A2 with any of the three major credit rating agencies, funds held with the bank should be kept at the minimum level required for operational reasons, and the Chief Financial Officer will recommend a course of action to Business Review Committee, which may include recommending that the University commences a tendering exercise to change the day to day bankers.

Certificates of Deposit and Corporate Bonds

Certificates of Deposits, and Corporate Bonds issued by financial and banking institutions are considered as Instant Access for the purposes of this policy. Such investments must therefore meet the short term credit rating criteria stipulated in this annex.

ANNEX C

RESPONSIBILITIES OF THE STRATEGIC INVESTMENT ADVISOR

The responsibilities of the Strategic Investment Advisor will include the following:

- Assess the University's requirements regarding investment income and capital growth.
- Identify the available funds for investment, taking account of liquidity and expenditure requirements.
- Assess the University's appetite for risk.
- Identify any constraints to be applied as a result of the University Treasury and Investment Management Policy.
- Given the above, to identify a suitable portfolio of asset classes and to identify and agree with the Business Review Committee target returns by asset class.
- Recommend and appoint suitable fund managers on a "best of breed" basis" to manage each asset class within the portfolio.
- The Strategic Investment Advisor will monitor the fund managers on a regular basis and report to the Chief Financial Officer on a quarterly basis regarding fund performance. The Investment Strategy Advisor will present fund performance to the Business Review Committee as required by the Committee.
- The Strategic Investment Advisor is required to operate within the constraints of the University Investment Policy *Annex B* for cash investments over £1 million
- Investments must adhere to the University's Ethical Investment Policy

DOCUMENT CONTROL INFORMATION

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