

TREASURY MANAGEMENT & FINANCIAL INVESTMENT POLICY



This document sets out the University's approach to treasury management and financial investment

Version	1.1
Executive Sponsor	Chief Operating Officer
Officer Responsible for Policy/ Procedures	Director of Finance
Consultation Process	Finance Office of the General Counsel
Date of Approval and Committee and/or Executive Officer	Executive Finance and Infrastructure Committee
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1. SCOPE OF THE POLICY

1.1 Purpose of the Policy

The purpose of this Policy is to ensure that all treasury management and investment is undertaken within clear parameters to manage the risks inherent within these activities.

1.2 What is covered by the Policy

This Policy sets out:

- how the University conducts treasury management and investment, and
- the internal thresholds for managing the risk.

1.3 Who is covered by the Policy

All staff, joint venture and business partners, contractors and suppliers to the University must comply with the Policy.

This Policy does not form part of any employee's contract of employment and may be amended at any time.

1.4 Breach of this Policy

Any breach of this Policy and its associated procedures by staff will be investigated in accordance with the University's disciplinary procedure. A serious breach may amount to gross misconduct and could therefore result in summary dismissal.

1.5 Policy Ownership

The Executive has approved this Policy, the Chief Operating Officer is the Executive sponsor and the Director of Finance is the officer responsible for the Policy. Any questions about the operation of this Policy or any concerns that the Policy has not been followed should be referred in the first instance to the Director of Finance.

2. THE POLICY STATEMENT

2.1 Guiding Principles

The guiding principles of this Policy are that the University regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured.

The University's risk appetite has been assessed as "low" for treasury management purposes. That is, the University is not willing to accept risks in most circumstances beyond a remote likelihood of reputation damage, financial loss or exposure or significant incident(s) of regulatory noncompliance.

The University acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The University follows the key recommendations of CIPFA's Treasury Management in the Public Services (the Code) and has considered the twelve Treasury Management Practices accordingly.

2.2 Procedures

This Policy is implemented and supported by the following policies and procedures:

- a) Anti-Money Laundering Policy
- b) Anti-Money Laundering Procedures
- c) Ethical Investment Policy
- d) Financial and Contracting Policy
- e) Anti-Fraud Policy

3. DEFINITIONS

General Funds Surplus cash arising from the operational and financing activities of the University, usually short term in nature and managed to ensure that working capital requirements are met.

Donations Unrestricted charitable donations received by the University, for general use within twelve months of receipt. For the purposes of this Policy, donations are treated in the same way as general funds.

Endowment investments Funds held and managed in trust for longer than twelve months in accordance with any specified restrictions in use and/or in the preservation of capital, or otherwise, determined by donors.

CIPFA The Chartered Institute of Public Finance & Accountancy

OfS Office for Students

4. RISK MANAGEMENT

4.1 Liquidity risk management

The University will ensure that it has adequate, cash resources, borrowing arrangements, overdraft or standby facilities, to enable it at all times to have the level of funds available for the achievement of its business objectives.

The University will maintain a minimum level of cash no lower than £10 million and liquidity days will be no lower than 30 days, as required by OfS.

The University will do this by maintaining an effective cash flow forecasting and monitoring system which will identify the extent to which the organisation is exposed to the effects of potential cash flow variations and shortfalls.

4.2 Interest Rate Risk Management

The University will manage its exposure to fluctuations in interest rates with a view to containing its interest costs or securing its interest revenues while maintaining the security of the invested funds. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to fix interest rates on borrowings

and investments but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes to the level or structure of interest rates.

4.3 Exchange Rate Risk Management

The University will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on the University income & expenditure statement. The University will not expose itself to unnecessary or speculative exchange rate risk and will not operating any currency hedging arrangements due to the uncertainty of predicting the amount and timing of receipts. Any change to this must be approved by the Finance and Infrastructure Committee. In the event that the impact of the exchange rate translation is more than 10% of the balance for that currency, this will be reported to Finance and Infrastructure Committee.

The University aims to conduct all transactions in UK Sterling (GBP) as its base currency. However, there will be exceptions which include research contracts, whereby the University will need to conduct transaction in other countries. Given this the University will retain funds in currencies only to the extent that payments are known and due to be made in these currencies. The University only operates bank accounts in the following currencies:

- GBP
- Euro
- USD

Currency receipts will be transferred into sterling at the best rate achievable but always retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous, changes in the level of exchange rates. It is an expectation that currency is generally converted on receipt, in order to minimise rate risk exposure. However, where the University holds euros on behalf of research partner institutions, these will be retained, until the distribution is calculated and made.

4.4 Credit and Counterparty Risk Management

The University regards a prime objective of its treasury management activities to be the security of the principal sums it invests. However, the complete avoidance of risk is neither appropriate nor possible.

Accordingly, to assist in achieving an appropriate balance between risk and return the University will maintain a counterparty list and limits.

In line with best practice set out in the CIPFA Code, our minimum acceptable long-term counterparty ratings will be specified in terms of an equivalent rating across all three credit rating agencies – Moody's, S&P and Fitch. Where counterparties have ratings from multiple agencies, they should normally meet all agencies' ratings.

When placing deposits, as well as taking into account the individual bank credit rating, consideration should be taken into account of the sovereign rating also. This will avoid placing deposits with banks meeting the agreed credit ratings but where the country of domicile may not meet the minimum long-term rating.

The authorisation of investment of funds will be administered in line with the Financial and Contracting Policy with any counterparty which meet the rating criteria, to ensure that the primary objectives of safeguarding the University's assets and limiting its risk are balanced with the achievement of a satisfactory return. The University will review the counterparties quarterly and any changes will be reported to the Finance and Infrastructure Committee.

The counterparty includes UK and non-UK banks. Our current minimum acceptable long-term rating for both sovereigns and banks is S&P A-, Moody's A3, Fitch A-, which is regarded as the lowest level at which counterparties are regarded as 'upper medium grade' for investment.

Counterparties must meet two out of three minimum ratings. Investments with banks will be for no longer than 24 months.

The credit limits that will apply are as follows:

	Type of Investment	Rating (if applicable)	Limits
General Funds	Bank Deposits	UK Based S&P A- minimum	£15m with one institution/group of companies
	UK Treasury Bills	N/A	Unlimited Investment
	UK Government bonds	N/A	Unlimited Investment
Endowments	Bank Deposits	UK Based S&P A- minimum	£15m with one institution/group of companies
	UK Treasury Bills	N/A	Unlimited Investment
	UK Government bonds	N/A	Unlimited Investment
	Money Market Funds	AAA	£15million per fund manager

Furthermore, it will limit its investment activities to the instruments referred to and as set out in Section 7 below.

The counterparty list will be reviewed on a continuing basis but at least quarterly. The Director of Finance will have the power to temporarily remove (and then to reinstate) any counterparty if any current issues should result in doubts over that counterparty's ability to repay funds. This must be approved by the Chief Operating Officer.

The Director of Finance is responsible for monitoring closely the credit standing of approved counterparties. Where the Director of Finance has reason to believe that a counterparty's credit standing is or may become impaired then action to apply lower limits than those set out above or cease to use them should be taken. Existing deposits will be allowed to mature unless the change indicates a fundamental deterioration in the University's position to the extent that the security of the deposit is considered at risk. The Director of Finance will subsequently seek the early return of the deposit and will attempt to minimise the breakage costs of the early return. Any changes to the credit limits or early returns of deposits must be approved by the Chief Operating Officer.

4.5 Borrowing and Refinancing Risk Management

The University will ensure that its borrowing, private financing and partnership arrangements are appropriately negotiated, structured, documented and approved ultimately by Council.

The University will seek to ensure that, where possible, new funding arrangements will not be entered into that bind the University to meet onerous financial covenants and security arrangements. The University will not enter into funding arrangements where the repayment profile of the loan(s) exceeds the expected useful economic life of the asset or venture being financed.

The University will monitor the terms and the maturities of its borrowings, capital, project and partnership funding, which will allow it to plan the timing and appropriateness of re-negotiating terms for refinancing.

Where it is the intention of the University to raise capital for new projects, the Chief Operating Officer will have regard to:

- the level of security for the project;
- the value of assets already held as security on existing capital projects;
- requirements of OFS;
- statutory restrictions and the University's own powers and rules;
- restrictions on the University's use of its property assets required by covenants; and
- the maximum level of assets that should be provided as security without risking the overall stability of the University.

4.6 Legal and Regulatory Risk Management

The University will ensure that all of its treasury management activities comply with its statutory powers including the Financial Regulations and other regulatory requirements.

The University further recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

4.7 Fraud, Error and Corruption, and Contingency Management

The University will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. It will employ suitable systems and procedures and will maintain effective contingency management arrangements.

It will keep full analysis and records of the processes pursued in making treasury management decisions, and in executing transactions, to enable the organisation to create a successful audit trail, and to allow it to assess the need for contingency arrangements.

The University will maintain cover under an Employee and Third Party insurance policy against direct financial loss caused by crime.

4.8 Market Risk Management

The University will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums that it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Full analysis and records of the processes pursued in making treasury management decisions, and in executing transactions, will be kept to enable the organisation to create a successful audit trail, and to allow it to assess the need for contingency arrangements.

5. VALUE FOR MONEY AND PERFORMANCE MEASUREMENT

The University is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement. Accordingly, the Director of Finance will regularly examine alternative methods of service delivery to ensure the University's business objectives are met in the most effective and efficient way.

In assessing the value added by the providers of external services, account will be taken of all relevant factors, including the cost, quality, reliability and scope of the service to be provided.

5.1 General Funds

General funds will be managed proactively to seek the best overall return to the University at the lowest available risk to underlying capital values, and ensuring compliance with this Policy, in particular minimum available cash levels.

While investments of general funds will not normally be longer than one year, with the exception of those funds managed by a fund manager, the key determinant will be the liquidity of an investment, i.e., the ability of the University to recall funds to cash. As a general guide:

- Investments held for less than three months should be able to be recalled at 3 working days' notice.
- Investments held for three months to twelve months should be able to be recalled at no more than 30 working days' notice.
- Investments held for over one year should be able to be recalled at 30 working days' notice.

5.2 Endowment investments

a) Types of Endowment

Endowment investments are either:

- Permanent - the capital cannot be spent (but can appreciate or depreciate due to capital gains) and only interest earned can be utilised for the prescribed purpose); or
- Expendable - the capital itself can be utilised for the prescribed purpose, including any capital gains, as can any interest earned).

b) Donor expectations

- The nature of endowments is such that the expectations of the donor need to be considered when determining the appropriate investment strategy.
- A donor of a permanent endowment will likely expect that investments are made that maximise interest rather than capital gains (albeit while proportionally protecting the capital).
- A donor of an expendable endowment will likely be ambivalent to the split between capital gains and interest, only seeking to maximise both and extend the life of the endowment in the process.
- In some circumstances, the donor may go as far as to specify how they want their money invested.
- Therefore, different investment strategies are required for different types of endowment.

c) Endowment objectives

- Permanent endowments will be invested on a portfolio basis. The objective is to maximise the interest received per annum, while aiming to maintain the capital amount.

Therefore, the investments will usually be longer-term, lower risk, such as; property, bonds and gilts. A target range of ¹5-7% interest yield per annum will be applied.

Gains (capital and interest) will be allocated on a quarterly basis across the portfolio based on the value of the capital, with the exception of where a specific endowment is by request invested in a specific way.

¹ Figures based on the average of the actual yielded for the investment classification

- Expendable endowments will be invested on a portfolio basis. The objective is to maximise the combined interest received and capital gains per annum.

Therefore, the investments will usually be medium-term, medium risk, such as Charifund/COIF.

A target range of ²5-7% combined return per annum will be applied. Gains (capital and interest) will be allocated on a quarterly basis across the portfolio based on the value of the capital, with the exception of where a specific endowment is by request invested in a specific way.

- Endowments are by definition spent on an ongoing basis, and as such a baseline amount of £250,000 will be held in a designated bank account.

6. DECISION-MAKING AND ANALYSIS

The University 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 factors relevant to those decisions were taken into account at the time.

The University will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions are set out below.

In respect of all decisions the University will:

- Be clear about the nature and extent of the risks to which the University may become exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver the University's objectives and protect its interests, and to deliver good housekeeping.
- Ensure that third parties are judged satisfactory in the context of the University's creditworthiness policies, and that limits have not been exceeded.
- Assure itself that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

These factors will include the following:

- The risk appetite of the University.
- The budgetary constraints and financial covenants within which the University operates.
- Prevailing economic conditions and interest rate and economic forecasts.
- The bank and capital funding market conditions.
- Available investment and treasury management instruments and funding options.
- Subsidiary company borrowing and investment requirements.

6.1 Investments

In respect of investment decisions, the University will:

- Consider the optimum period in the light of cash flow availability and prevailing market conditions.

² Figures based on the average of the actual yielded for the investment classification

- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the University to changes in the value of its capital.

6.2 Borrowing

In respect of borrowing and other funding decisions, the University will:

- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.
- Consider the ongoing revenue liabilities created, and the implications for the University's future plans and budgets.

When considering raising finance the Director of Finance and designated staff will have regard specifically to:

- The University's powers and rules.
- Statutory restrictions.
- The requirements of the funding council.

7. APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The University will undertake its treasury management activities by employing only those instruments, methods and techniques detailed below and within the limits and parameters defined under the Section 1 "Risk Management".

7.1 Approved Investment Instruments

- Certificates of Deposit
- UK Treasury Bills
- Deposits with approved Banks and Building Societies (fixed term deposits, notice accounts, instant access interest bearing accounts)
- Unit Trusts
- UK Government Bonds (Gilts)
- Financial Corporate Bonds
- AAA rated money market funds.

7.2 Borrowing and refinancing risk management

a) Approved Sources of Finance

- UK and Europeans Bank
- UK Building Societies
- UK Government
- Insurance Companies
- UK Companies
- Investment and Unit Trusts
- UK Local Authorities
- EC Agencies
- UK Bond Market

- UK and European trusts and charities
 - UK Government agencies
- b) Approved Methods of Borrowing/Raising of Finance
- Mortgages secured on property collateral
 - Term Loans (secured or unsecured)
 - Revolving credit facilities
 - Private placements
 - Finance Leases (buildings and equipment)
 - Gifts, grants and donations

8. ORGANISATION, CLARIFY AND SEGREGATION OF RESPONSIBILITIES

The University considers it essential that treasury management activities are controlled, structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.

There will be clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies.

The Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The Director of Finance will ensure that all those engaged in treasury management activities follow policies and procedures.

Roles and responsibilities relating to treasury management are detailed as follows:

- a) Finance and Infrastructure Committee
- Approval and recommendation to Council of key policies, procedures and delegation of authority;
 - Approval and recommendation to Council on acceptance of all loan and funding agreements;
 - Approval of short-term overdraft facilities;
 - Approval and recommendation to Council of new bank loan facilities and/or bond issuance;
 - Approval and recommendation to Council of assets offered as security for loans
 - Approval of the opening of new bank accounts;
 - Approval of/amendments to the University's adopted clauses, this Policy statement and treasury management practices; and
 - Approving the criteria for the selection of external service providers and agreeing terms of appointment.
 - Approving the annual report on treasury management and investment performance
- b) Audit Committee
- Receiving and reviewing internal and external audit reports and monitoring the effective and timely implementation of recommendations.
- c) Director of Finance
- Recommending treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
 - Implementation of the annual treasury strategy.
 - Receiving and reviewing management information reports.
 - Submitting regular treasury management policy reports to Finance and Infrastructure Committee.

- Negotiate the terms of new bank loan facilities and/or bond issuance.
 - Ensuring the adequacy of internal audit and liaising with external audit.
- d) Head of Operations
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
 - Reviewing the performance of the treasury management function and promoting best value reviews.
 - Recommending the appointment of external service providers.
 - Execution of transactions.
 - Maintaining treasury management records.
 - Adherence to agreed policies and practices on a day-to-day basis.
 - Maintaining relationships with third parties and external service providers.
 - Submitting management information reports to the Director of Finance.
 - Identifying and recommending opportunities for improved practices.

9. REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The University will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

With regard to treasury management, the Finance and Infrastructure Committee will receive:

- An annual report on the performance of the treasury management function which will include:
 - The effects of the decisions taken and the transactions executed in the past year.
 - Reasons for and the effects of any changes to the strategy set at the beginning of the year.
 - The value of cash and borrowings and highlight any issues.
 - The value of investments and the performance over a one, three and five year basis and highlight any issues.
 - Any changes to the strategy for the coming year.
- Any proposed amendments to this Policy.
- Exception reports on a timely basis of any breach or potential breach of the University's financial covenants with lenders, that is likely to have a material adverse effect upon the University's finances and continued operations.
- Any proposed amendments to criteria for approved counterparties.

In addition to the above, the Chief Operating Officer will, upon identification of any treasury management event likely to have a materially adverse effect on the finances of the University, report this as soon as possible to the Finance and Infrastructure Committee with proposals for rectifying or ameliorating the effect of such an event.

Cash balances and cashflow forecasts, which are updated quarterly, and compliance with covenants are reported monthly as part of the management accounts to Executive. A five-year cashflow forecast and covenant compliance is produced annually and reported to Finance and Infrastructure committee.

10. BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

This Policy shall have regard to the long-term strategic plan, financial forecasts and estates strategy. The annual budget will be monitored by the Director of Finance and reported in the University Monthly Management Accounts.

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.

The University will ensure that its auditors, both external and internal, and those charged with regulatory review, have access to all the 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.

11. CASH AND CASHFLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies applicable to the University will be monitored and aggregated for cash flow and investment management. Cash flow projections will be prepared on a regular and timely basis (monthly), and the Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with treasury management practice.

The Director of Finance will ensure that the University has sufficient cash and available facilities to meet the requirements set out in section 4.1

The overriding principle guiding the investment of surplus funds is to achieve a satisfactory return within the constraints of prudence and will be managed in accordance with both this Policy and the Ethical Investment Policy. Funds must be deposited with the approved counterparties as set out in section 4.4.

Liquidity will be maintained to allow the University to meet its financial obligations, with only cash surplus to working capital requirements being invested. The investment portfolio will be balanced by spreading surplus cash across approved counterparties and over varying time scales.

12. ANTI- MONEY LAUNDERING

The University will comply with the requirements of the Anti-Money Laundering Policy.

13. TRAINING AND QUALIFICATIONS

The University recognises the importance of ensuring that all staff involved in the treasury management function are equipped to undertake their duties and responsibilities. The University will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills that will allow them to perform their duties.

The Director of Finance will recommend and implement the necessary arrangements.

14. USE OF EXTERNAL SERVICE PROVIDERS

The University recognises that whilst at all times responsibility for treasury management decisions remains with the University there is potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. It will only seek to employ such service providers subject to approval of a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which they will be assessed are subject to regular review by the Chief Operating Officer and/or Director of Finance.

Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

15. CORPORATE GOVERNANCE

The University is committed to the pursuit of excellent corporate governance throughout its businesses and services and to establishing the principles and practices by which this can be achieved.

With this aim in mind the University has adopted the key recommendations of the CIPFA Code of Practice, which it considers to be vital to the achievement of proper corporate governance in treasury management.

Aston University staff and students may propose amendments to this Policy via their representatives on the Finance and Infrastructure Committee.

All proposed amendments will be considered annually by the Finance and Infrastructure Committee, concurrent with its review of this Policy.

The Finance and Infrastructure Committee shall consider annually the progress against the objectives set out within objectives in this Policy.



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