

## The Treasury Management Policy Statement

The policies and objectives of treasury management activities of Brunel University (hereinafter referred to as “the University”) are set out in this Statement.

1. The University will manage its cash resources mindful of three key elements:

- Security of cash deposited;
- Maintenance of adequate liquidity to meet operational needs; and
- Gaining an appropriate level of investment return.

In any decisions over cash deposits, the security of cash deposited must take precedence. The complete avoidance of risk is neither appropriate nor possible and a balance must be struck with a keen responsibility for money held for charitable purposes.

2. The University defines its treasury management activities as:

“The management of the University’s investments and cash flows, 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 those risks.”

3. 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. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the University.
4. The University acknowledges that effective treasury management will provide support towards the achievement of its business 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.
5. The University follows the key recommendations of CIPFA’s Treasury Management in the Public Services/Code of Practice and Cross-Sectoral Guidance Notes.
6. The Treasury Management Policy Statement and Policies set out here will apply to subsidiaries of the University whose results are consolidated into the University’s annual accounts, subject to any deviation that has been approved by Council.

## **Treasury Management Practices**

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance.

## **TMP1 Risk management**

### **General statement**

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report to the Finance Committee at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the institution's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of the following risks, where applicable, the arrangements which seek to ensure compliance with these objectives are set out in the Schedules to this document.

### **Liquidity risk management**

The University 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 objectives.

### **Interest rate risk management**

The University will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements. It will achieve this whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates in accordance with *TMP6 Reporting requirements and management information arrangements*.

### **Credit and counterparty risk management**

The University regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards institution with which funds may be deposited, and will limit its investment activities to the instruments and counterparty limits detailed in the Schedules to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

### **Exchange rate risk management**

The University will not expose itself to unnecessary or speculative exchange rate risk. The University will retain funds in currencies only to the extent that payments are due to be made in these currencies. Currency receipts surplus to this 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.

### **Borrowing and refinancing risk management**

The University will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the University as can reasonably be achieved in the light of market conditions prevailing at the time. The University will not enter into funding arrangements where the repayment profile of the loans exceeds the expected useful economic life of the asset or venture being financed.

The University will seek to ensure that, where possible, new funding arrangements will not be entered into that bind the University to meet financial covenants and security arrangements which are deemed to be more onerous than those contained within the current loan documentation. The financial position of the University is monitored on a regular basis to ensure it does not breach any of its existing financial covenants.

### **Legal and regulatory risk management**

The University will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

The University 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 University.

### **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. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements.

### **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 it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## **TMP2 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 treasury management function will be the subject of ongoing analysis of the value it adds in support of the University's business objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria as set out in the Schedules to this document.

## **TMP3 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 issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Schedules to this document.

## **TMP4 Approved instruments, methods and techniques**

The University will undertake its treasury management activities by employing only those instruments, methods and techniques as recommended in the CIPFA Code of Practice, and within the limits and parameters defined in TMP1 *Risk management*.

## **TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The University considers it essential that treasury management activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities. This is to ensure the effective control and monitoring of its treasury management activities, the reduction of the risk of fraud or error and for the pursuit of optimum performance.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the

recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the University intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

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 there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The Director of Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

### **TMP6 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.

As a minimum, the Finance Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year;
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs. The report will include the reasons for and the effects of any changes to the strategy set at the beginning of the year;
- Regular monitoring reports on treasury management activities and risks;
- Exception reports on a timely basis of any breach or potential breach of the organisation's financial covenants with lenders, that is likely to have a material adverse effect upon the organisations finances and continued operations.

### **TMP7 Budgeting, accounting and audit arrangements**

The University's current systems and procedures in relation to budgeting, accounting and audit arrangements are detailed in the University's financial regulations.

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 during the applicable period.

### **TMP8 Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University will be under the control of the Director of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with the TMP1 section regarding *liquidity risk management*.

### **TMP9 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. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that its staff members are properly trained where applicable.

The University has developed an [Anti-Money Laundering Policy and Procedures](#) document for use by staff.

### **TMP10 Training and qualifications**

The University recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance will recommend and implement the necessary arrangements.

The Director of Finance will ensure that Finance Committee members and other non-Treasury staff tasked with treasury management responsibilities, including those responsible for scrutiny, receive training relevant to their needs and those responsibilities.

### **TMP11 Use of external service providers**

The University recognises that whilst at all times responsibility for treasury management decisions remains with the University there is 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 always be observed. The monitoring of such arrangements rests with the Director of Finance.

### **TMP12 Corporate governance**

The University is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The University has adopted and has implemented the key recommendations of the CIPFA Code of Practice. This, together with the other arrangements detailed in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.



## **SCHEDULES TO THE STATEMENT OF THE TREASURY MANAGEMENT PRACTICES**

### **LIQUIDITY**

The Director of Finance will ensure that the University has sufficient funds in all circumstances to meet its liabilities as and when they fall due and with a sufficient margin to meet unexpected expenditure that may arise from time to time.

The Director of Finance will ensure that available liquidity, consisting of:

- cash balances on deposit;
- cash balances with a maturity/notice period of between one day and one month;
- cash balances with a maturity/notice period of between one and three months

must not, at any time, fall below the equivalent of two months' total payroll costs.

The University will be required to keep within its approved overdraft limits.

A nominal overnight balance will be maintained in the primary current accounts.

### **INTEREST RATE MANAGEMENT**

The University considers the management of its exposure to interest rate risk to be a critical element in achieving its business objectives. The University is able to manage its exposure to interest rate risk through the medium of its loan agreements and the embedded hedging instruments.

The University has hitherto adopted a strategy of fixing the interest rate on all of its borrowings for the duration of those borrowings. Prior to the undertaking of any new borrowing the Director of Finance will prepare a report with recommendations for managing the exposure resulting from that new borrowing for presentation and approval by Council.

### **CREDIT AND COUNTERPARTY LISTS**

The Director of Finance is responsible for monitoring closely the credit standing of approved counterparties. Where he/she has reason to believe that a counterparty's credit standing is or may become impaired he should apply lower limits than set out in these Schedules or cease to use them. Any change to the counterparty list criteria should be advised to the Finance Committee.

The Director of Finance is authorised to deposit surplus Sterling funds of the institution with, and purchase certificates of deposit issued by, any of the organisations listed below, 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.

<u>Counterparties</u>	<u>Limits</u>	<u>Time Period</u>
UK Bank/Institution Per credit rating list	£10 million (*)	No limit
European Bank	zero	n/a

\* - These limits apply to the principal deposit, excluding interest.

The University may invest with AAA rated Money Market Funds (MMF). The maximum amount that may be invested in MMF funds shall be the lower of £25 million or 25% of the total available liquidity. The maximum amount that may be invested in any single MMF is £10 million.

In addition to the above limits, the University will maintain its deposits in a diverse number of counterparties with a maximum single counterparty limit of 20% of the Sterling cash balances of the University at any point in time, with the exception of Lloyds Banking Group, as detailed below.

In addition to Sterling balances, the University may hold current assets denominated in foreign currency, but only to the extent that they are committed (both on or off the balance sheet) to be expended in the same currency (i.e. matched), as set out in the Exchange Rate Exposure section. The maximum level of these funds to be held with any one institution is limited to 10 million Euros and the funds may only be held with a UK Bank that meets the criteria for inclusion on the approved credit rating list.

Where the University has placed funds on fixed term deposit and circumstances change such that there is a rating agency downgrade or the University receives advice regarding the counterparty, no further deposits will be made with that counterparty. Existing deposits will be allowed to mature unless the change indicates a fundamental deterioration in the institution's position to the extent that the security of the deposit is considered at risk, when the Director of Finance will seek the early return of the deposit and will attempt to minimise the breakage costs of the early return.

The limits set out above may be amended only with approval of the University's Finance Committee.

## **Deposits With Lloyds Banking Group**

Deposits placed with Lloyds Banking Group, with which the University has a long term Loan Facility Agreement in place, should be maintained in accordance with the Agreement with Lloyds, as amended in 2013.

**Note:** The University will take account of the credit rating list provided by its Treasury Management advisers (Capita Asset Services) to identify approved investment counterparties. The Capita credit list, which is updated weekly, uses the short and long term credit ratings provided by Fitch, Moodys and Standard and Poors and takes account of all credit watches / outlooks notices issued by these agencies

The minimum acceptable Fitch ratings for approved counterparties shall be no lower than A- for long term investment (greater than 365 days), and F1 for short term investments for UK and European banks. Building Societies must have a minimum rating of A-, F1 or total assets in excess of £1 billion.

## **EXCHANGE RATE EXPOSURE**

The University seeks to ensure that it is not exposed to significant exchange rate fluctuations by matching its foreign exchange transactions. The effect of this is that current assets denominated in foreign currency are only held to the extent that they are committed (both on or off the balance sheet) to be expended in the same currency (that is, matched). In those cases where it is not possible to match such foreign currency assets in terms of value and maturity dates, the Director of Finance should ensure that the total (un-netted) value of all such unmatched foreign currency assets and liabilities (including off-balance sheet commitments) at any time does not exceed the sterling equivalent of £1 million. The Director of Finance should limit this unmatched exposure by utilising appropriate hedging instruments. Foreign currency dealings should be entered into only for the transaction of normal university business, and under no circumstances is it permissible for foreign currency transactions to be used on a speculative basis.

In general, all transactions entered into by the University should be on the basis that income and receipts will be denominated in Sterling. Any agreed currency receipts should be transferred into sterling within one month of receipt, except where matching currency payments are due to be made. In this situation, sufficient currency should be retained on deposit to cover the payments.

The Director of Finance is authorised to buy and sell currencies with any of the organisations listed below:

<u>Institution</u>	<u>Limits</u>
University's Bankers and other UK Clearing Banks	US \$2 million Euro 2 million
Financial Brokers (Registered by the FSA)	US \$2 million Euro 2 million

The limits set out above may be amended only with approval of the University's Finance Committee.

## **BORROWING AND REFINANCING**

This University may borrow from

- Banks
- Financial Institutions
- The Bond Markets

Loan facilities will be arranged only with organisations that are judged to have sufficient financial strength to ensure that the funds committed under the facilities will be available as and when they are required by the organisation in accordance with the terms of the loan agreement. This will normally mean that lending organisations are at least investment grade.

The University currently has three long term loans, repayable by 2040, from Lloyds Banking Group, originally totalling £100 million and secured by way of a debenture. These loans amortise in accordance with an agreed schedule and incorporate a number of undertakings and financial covenants.

The University has entered into three standalone interest rate swaps with Merrill Lynch International (MLI). These interest rates swaps are for amounts identical to the term loans provided to the University by Lloyds Bank. The notional amount of the swaps reduces over time in accordance with schedules which are also identical to the loan repayment schedules. The interest rate swaps are subject to an ISDA agreement incorporating standard terms and conditions for transactions of this nature.

Where it is the intention of the institution to raise capital for new institutional projects, the Director of Finance 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 the [Memorandum of Assurance and Accountability](#) with HEFCE;
- statutory restrictions and the institution'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.

## **LEGAL AND REGULATORY FRAMEWORK**

The University will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. The University was established by Royal Charter in and is an exempt charity under Schedule 3 of the Charities Act 2011.

### **Regulatory requirements**

The principal regulator to which the University is accountable is the Higher Education Funding Council for England (HEFCE). HEFCE has a regulatory duty to ensure that universities in receipt of public funds provide value for money and are responsible in their use of these funds. The main requirements for the University in meeting its regulatory obligations are set out in the HEFCE [Memorandum of Assurance and Accountability](#). The University will ensure that its Treasury Strategy, Policies and Procedures are compliant with the Memorandum.

### **Proof of powers of the University**

Details of the legislative and regulatory framework within which the University operates and copies of its constitutive documents will be provided to potential and/or existing counterparties, where these may be reasonably requested for the purposes of entering into treasury management arrangements with this organisation.

### **Proof of powers counterparties**

Prior to entering into any treasury management agreement with a counterparty, all reasonable steps will be taken to verify the powers of that counterparty to enter into such agreements, and such evidence as may be required to do this will be sought from the counterparty.

### **Government and political risks**

A number of elements of the finances of the University are affected directly and indirectly by the policies and decisions of central government. These include student fee income and

research income. Such risks will be taken into account, as far as this is possible, in determining treasury management policy and risk management strategy.

## **VALUE FOR MONEY AND PERFORMANCE MEASUREMENT**

The University's Treasury Management operation is undertaken by a small team with limited resources and therefore has limited scope to review value for money and undertake market testing for performance measurement. However, the University operates a procurement policy to promote value for money and the Treasury Management operation is encompassed within that remit.

Value for money from external services, where applicable to the Treasury Management function, will be ensured by following a periodic tendering process. The tender process will be that normally followed by the University, contained within the University's detailed purchasing procedures. 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.

Council is responsible for the appointment of the service provider, on the recommendation of the Finance Committee, for the following services, which will be subject to review of the requirement to tender at least once in five years:

- Banking services
- Fund management services

## **PERFORMANCE MEASUREMENT**

### **IN-HOUSE PERFORMANCE**

The benchmark for interest earned on self-managed funds will be:

under £ ½M    base-rate less ½ %

over £ ½M    base-rate

Quarterly reports by the Director of Finance will show funds held, interest earned, comparison to benchmarks.

### **INVESTMENT MANAGERS**

Benchmarks and reporting requirements as set out in Agreement with the Investment Manager.

## **DECISION MAKING AND ANALYSIS**

In making key decisions regarding its treasury management activities the University will ensure that proper consideration is given to all relevant factors. These will include:

- The risk appetite of the University;
- The requirements of the University's regulatory environment;
- 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.

The Director of Finance will be responsible for ensuring that the outcome of such decisions is effectively communicated to any officer of the University who may be involved in implementing those decisions. Quarterly meetings will also be held with the University's external treasury management advisors.

## **RESPONSIBILITIES IN RELATION TO TREASURY MANAGEMENT**

### **(i) UNIVERSITY COUNCIL**

- Approval and amendment of treasury management policy statement;
- Approval and amendment of borrowing framework;
- Approval of assets offered as security for loans

### **(ii) FINANCE COMMITTEE**

- Approval of key policies, procedures and delegation of authority;
- Approval and acceptance of all loan and funding agreements;
- Approval of short term overdraft facilities;
- Approval of the terms of new bank loan facilities and/or bond issuance;
- Approval of the opening of new bank accounts;
- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- Approving the criteria for the selection of external service providers and agreeing terms of appointment.



**(ii) AUDIT COMMITTEE**

- Receiving and reviewing internal and external audit reports, and monitoring the effective and timely implementation of recommendations.

**(iii) DIRECTOR OF FINANCE**

- Recommending clauses, 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 Committee;
- Reviewing the performance of the treasury management function and promoting best value reviews;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Negotiate the terms of new bank loan facilities and/or bond issuance;
- Ensuring the adequacy of internal audit, and liaising with external audit; and
- Recommending the appointment of external service providers.

**(iv) TREASURY DEPARTMENT**

- 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;
- Monitoring performance on a day-to-day basis;
- Submitting management information reports to the Director of Finance; and
- Identifying and recommending opportunities for improved practices.

## **REPORTING REQUIREMENTS**

The following matters should be included in the Reports to the Finance Committee.

### **Annually**

- Commentary on treasury operations for the year;
- Cash flow compared with budget and commentary on variances;
- Annual financial strategy for the next financial year;
- Cash flow forecasts for the next and following three financial years, including details of borrowing maturities during this time; and
- Proposed amendments to the treasury management policy statement;

### **Periodic Reports**

- Matters in respect of which the treasury management policy statement has not been complied;
- Analysis of current outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover period;
- Commentary on treasury operations for the period, including any instances of counterparty limits being breached, with explanation;
- Cash flow compared with budget and commentary on variances;
- Commentary on continued applicability of annual financial strategy and proposals for amendments thereto;
- If applicable, revisions to following twelve months cash flow forecast and to estimates of future interest rates; effect on annual financial strategy and on revenue budget;
- Proposed amendments to criteria for approved counterparties; and
- Proposed amendments to treasury systems document.

In addition to the above, the Director of Finance 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 Committee with proposals for rectifying or ameliorating the effect of such an event.

## **USE OF EXTERNAL ADVISERS**

The University currently retains Capita Asset Services as a treasury management advisor. This service will be reviewed on a regular basis and re-tendered periodically in accordance with the University's normal procurement practice.