

BHASVIC

TREASURY MANAGEMENT POLICY

Finance & General Purposes Committee:
Corporation Approval:
Review Date:

November 2016
December 2016
December 2019

BHASVIC

TREASURY MANAGEMENT POLICY

Policy Statement

This policy is intended to cover the treasury management activities of the College.

BHASVIC defines its treasury management activities as:

- the management of the College's cashflows, its banking, money market and capital market transactions
- the effective control of the risks associated with those activities
- the pursuit of optimum performance consistent with those risks

Policy Scope

This policy is relevant to SMT and Governors.

Policy Purpose

To ensure

- 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.

Principles

1. The College 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 college.
2. The College 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
3. The College will seek to maximise the interest received on cash balances at minimum risk, within the parameters that the security of the capital is paramount and that cash funds must be available to meet disbursements as they arise. Funds will be held with any of the main clearing banks and placed on deposit for an appropriate period of time.

Review of Policy

This policy will be reviewed every three years or sooner if required.

Related policies and documents

- Business Procedures
- Instrument and Articles of Government
- Risk Management Policy

TREASURY MANAGEMENT PRACTICES

Risk management

The Assistant Principal (Director of Resources) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report 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 college's objectives.

Liquidity risk management

The College will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdrafts 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 objectives.

Interest rate management

The College will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues.

Inflation risk management

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the College as an integral part of its strategy for managing its overall exposure to inflation.

Refinancing risk management

The College will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented so that offer terms for renewal or refinancing, if required, are competitive and as favourable to the College as can reasonably be achieved in the light of market conditions prevailing at the time.

Legal and regulatory risk management

The College will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements and will demonstrate such compliance if required to do so. It will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions with the College, particularly with regard to duty of care and fees charged.

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.

Approved financial counterparties

The College will only invest funds within the following constraints:

- With UK based institutions
- Deposits no longer than **one year**
- A maximum deposit of £1m, except if the deposit is with the College bankers, currently Lloyds
- Any bank or building society with a long term credit rating better than A3 as defined by Moody's or Standard and Poors

For day to day operational reasons, the College's principle clearing bank is not subject to the above restrictions in terms of cash held in its main account. However, accounts should not be over funded for an extended period of time and efforts should be made to spread funds across all suitable appropriate investment facilities.

In this regard, it is considered that the report by the Treasury and Civil Service Committee of the House of Commons on the BCCI disclosure is still pertinent, wherein it was stated that: 'In balancing risk against return, public sector organisations should be more concerned to avoid risk than to maximise returns'.

Use of external intermediaries

The College will not use brokers or fund managers since the majority of its cash deposits are relatively small and short term, and it will only seek advice from institutions as regards the yields and interest rates that are on offer for cash investments.

Decision making and analysis

The College will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions.

Organisation, clarity and segregation of responsibilities, and dealing arrangements

The College considers it essential that its treasury management activities are structured and managed in a fully integrated manner and that there is clarity of responsibility at all times.

The College delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Finance and General Purposes Committee, and for the execution and administration of treasury management decisions to the Assistant Principal (Director of Resources), who will act in accordance with the College's treasury management practices.

The Assistant Principal (Director of Resources) will ensure that all transactions are documented and that procedures exist for the effective transmission of funds.

Reporting requirements and management information arrangements

The College will ensure that regular reports on treasury management are prepared and considered; on the effects of decisions taken and transactions executed; on the implications of changes e.g. regulatory or economic, affecting its treasury management activities; and on the performance of the treasury management function.

The Corporation will receive:

- An annual report on the performance of the treasury management function, on the effects of decisions taken and transactions executed in the previous year, and on any circumstances of non-compliance with the college's policy.

Budgeting, accounting and audit arrangements

The costs involved with and income generated from the treasury management function will be incorporated in the College's budget for that year. The Finance Manager will exercise effective controls over this budget, and will report upon and recommend any changes required to the Assistant Principal (Director of Resources).

The College will account for its activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force.

The College will ensure that its auditors have access to all information and papers supporting treasury management activities as are necessary for the proper fulfilment of their roles, and that such information demonstrates compliance with external and internal policies and approved practices.

Cash and cash flow management

All monies in the hands of the College will ultimately be under the control of the Principal, unless demanded otherwise by statutory or regulatory requirements, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and noted by the Corporation once each term.

Staff training and qualifications

The college recognises the importance of ensuring that all staff involved in the treasury management function are provided with training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Corporate Governance

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

SCHEDULES TO TREASURY MANAGEMENT PRACTICES

Risk management

Liquidity

The College sets itself a target of achieving 30 cash days in hand which is calculated at the end of each month and monitored by the Finance & Property Committee.

The College will maintain detailed records of the following information as the need for each arises:

- bank overdraft arrangements
- short-term borrowing facilities
- insurance/guarantee facilities
- other contingency arrangements

Interest rate

The College will consider each borrowing requirement or investment decision on an individual basis to decide whether fixed or variable rates of interest are appropriate. Once confirmed the college will maintain records of these transactions with details of relevant interest rates.

The College may use interest rate swaps, interest rate collars, interest rate caps and interest rate floors to mitigate the impact of potential interest rate fluctuations (interest hedging).

Inflation

When setting budgets and preparing financial forecasts the College bases non pay expenditure on known expected expenditure requirements, informed by previous year's outcome. Information provided by the sector is used for pay expenditure.

Refinancing

The college will:

- maintain records of all debt maturity to ensure that renewal or refinancing arrangements are negotiated in good time.
- maintain records of projected capital investment requirements to ensure that financing arrangements are negotiated in good time

Legal and regulatory

The college will operate in accordance with the **Funding Agreement** as signed by the College and the appropriate Funding Body and with the College's Business Procedures as approved by the Corporation.

To ensure that the above risks are managed and contained the college has in place, or will have as the need arises, the following:

- an effective cash flow forecasting and monitoring system which will identify the extent to which the college is exposed to the potential cash flow variations and short falls

- reliable and informed sources of information and advice on the likely future courses of interest rates and inflation, to enable it to assess the extent to which movements in each of these may impact on the college, and to permit the effective management and control of its exposure
- reliable records and forecasts of the terms and maturities of its borrowings to allow it to plan the timing of, and successfully negotiate appropriate terms for, its refinancing
- comprehensive documentation of the College's own legal powers and regulatory requirements to allow it to assess the potential for illegal or irregular dealings in its treasury management activities
- full analysis and records of the processes pursued in making treasury management decisions and in executing transactions, to enable the college to create a successful audit trail
- comprehensive records of the College's contractual responsibilities and liabilities under treasury management contracts with third parties, to enable it to fulfil its obligations thereunder.

Decision-making and analysis

To ensure that treasury making decisions are fully documented the following information will be recorded:

- the nature and extent of the risks to which the College may be exposed
- the nature of the transaction and confirmation that all authorities to proceed have been obtained
- confirmation that third parties are judged satisfactory and that limits have not been exceeded

In respect of borrowing decisions the College will:

- evaluate the factors that might influence the manner and timing of decisions
- consider the merits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to be used
- consider the ongoing revenue liabilities created and the implications for the College's future plans and budgets

In respect of investment decisions the College will:

- consider the optimum period in the light of cash flow availability
- consider the alternative investment opportunities

Organisation, clarity and segregation of responsibilities, and dealing arrangements

The main tasks involved in treasury management and the allocation of responsibilities within the college is as follows:

Corporation

- receive and review reports on treasury management policies, practices and activities
- ratification of treasury management decisions where required

Finance & General Purposes Committee

- approval of and amendments to the treasury management policy and treasury management practices
- approval and recommendation of treasury management decisions to the Corporation where required
- monitoring of the treasury management policies and practices

Audit Committee

- receive and review internal and external audit reports

Assistant Principal (Director of Resources) with delegation to Finance Manager

- regular review of the treasury management policy and practices and recommendation of amendments
- preparation and submission of treasury management reports
- review of the performance of treasury management decisions
- implementing recommendations from internal and external audit reports
- recommend treasury management transactions to the Finance & General Purposes Committee where appropriate
- execution of treasury management transactions in accordance with agreed policies and practices
- identify and recommend opportunities for improved practices

Reporting requirements and management information arrangements

The reporting requirements during the year are as follows:

Annual reporting requirements before the start of the year

- review of the treasury management policy and practices
- report on proposed treasury management activities for the year

Reporting requirements during the year

- activities undertaken
- variations from agreed policies and practices
- interim performance report (if required)

Annual reporting requirements after the year end

- transactions executed
- report on risk implications of decisions taken and transactions executed
- performance report
- compliance report on agreed policies and practices

Budgeting, accounting and audit arrangements

The budget will clearly identify the following:

- interest and other investment income
- debt and other financing costs
- bank and overdraft charges

Any serious breach of the treasury management policy and practices will be brought to the attention of the auditors

Cash and cash flow management

The college will prepare cash flow forecasts on a monthly basis so as to be able to determine:

- whether minimum acceptable levels of cash balances plus short term investments have been breached
- the adequacy of overdraft facilities
- the optimum arrangements to be made for investing surplus cash

All bank accounts will be reconciled by the Finance Manager on a weekly basis.

The Finance Manager will monitor the levels of debtors and creditors to enable corrective action for cash flow purposes

Staff training and qualifications

The college will provide the opportunity for all staff involved in treasury management to have access to either external training courses or in-house training as and when required.

Corporate Governance

To embrace the principles of corporate governance in their treasury management activities the college will:

- establish clear treasury management policies and practices
- ensure well-defined treasury management responsibilities and segregation thereof
- publish and allow free access to information about the College's treasury management transactions and other public documents connected with its treasury management activities