Treasury Management Policy

<table>
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<tr>
<th>Policy Owner</th>
<th>Rachel Burgess, Head of Financial Control</th>
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<td>Approving Body</td>
<td>Council</td>
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<tr>
<td>Date of Approval</td>
<td>22 November 2019</td>
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<tr>
<td>Approved by Finance Committee</td>
<td>31 October 2019</td>
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Royal Holloway, University of London
Treasury Management Policy

Scope and objectives

This document sets out the College's policy regarding its Treasury Management activities.

The College, in compliance with the CIPFA Code of Practice on Treasury Management (thereafter the Code of Practice), defines its Treasury Management as:

- Management of the College’s cash flows, its banking, money market and capital market transactions;
- The effective control and mitigation of the risks associated with those activities; and
- The pursuit of optimum performance consistent with those risks.

1. Risk management

The College will:

- design, implement and monitor all arrangements for the identification, mitigation, management and control of treasury management risk;
- report regularly 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; and
- annually report on compliance with any applicable external regulations.

The College has considered the risks and the arrangements which seek to ensure compliance with these objectives which are set out in Appendix 1.

2. Value for money, ethics and performance measurement

The College 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.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the College’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.

In addition the College takes its ethical obligations (and consequent reputational effects) seriously and is fully cognisant of its Environmental, Social and Governance responsibilities when considering treasury investment and deposits decisions.
The performance of the treasury management function will be measured using the criteria as set out in Appendix 2 of this document.

NB. The College’s Endowment funds (managed by external fund managers) are subject to regular scrutiny by the Investment Sub Committee (ISC) and are managed in accordance with the College’s Statement of Investment Policy.

3. 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, 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.

4. Approved instruments, methods and techniques
The College will undertake its treasury management activities by employing only those instruments, methods and techniques as recommended in the Code of Practice, and within the limits, parameters and risk profiles as defined in the appendices.

5. Organisation and segregation of responsibilities
The College considers it essential for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities and segregation of duties.

The Chief Financial Officer 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 Chief Financial Officer will also ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The responsibilities of key parties with regard to treasury management are as follows:

Council and Finance Committee
• to approve proposals for new borrowings in line with the limits set out in the College schedule of delegation and Financial Regulations;
• to approve the Treasury Management Policy and any future amendments;
• to approve interest rate hedging arrangements; and
• to appoint College bankers.

Chief Financial Officer
• to submit appropriate regular and ad-hoc treasury management reports to Finance Committee and Council;
• to ensure the adequacy of treasury management resources and skills, and the effective division of treasury management responsibilities within the Finance function;
• to ensure that procedures relating to the treasury function are fully documented, reviewed on a six monthly basis, and revised where appropriate; and
• to appoint external service providers.

Head of Financial Control / Treasury Analyst
• to administer treasury management policies on a day-to-day basis, adhering to agreed policies and procedures;
• to execute transactions; and
• to maintain treasury management records.
6. Reporting requirements and management information
The Finance Committee will receive a report on the activities of the treasury management operation at least once per year.

The report should include:
- Performance of the treasury and current investment portfolio;
- The location of the invested funds;
- Cashflow forecasting;
- Debt management;
- The status of the loan portfolio.

7. Budgeting, accounting and audit arrangements
The College’s current systems and procedures in relation to budgeting, accounting and audit arrangements are detailed in the College’s financial regulations.

The College 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.

8. Cash and cash flow management
The Chief Financial Officer will have responsibility for the cash management of the College and its subsidiaries as defined under this policy.

Cash flow projections will be prepared on a regular and timely basis, and the Chief Financial Officer will ensure these are adequate for the purposes of monitoring compliance with treasury management practice on liquidity risk management.

9. Money laundering
The College is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that all staff involved are properly trained and fully aware of the College’s Anti-Money Laundering Policy.

10. Staff training and qualifications
The College 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.

11. Use of external service providers
The College recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits.

It will further ensure, where feasible and necessary, that a spread of service providers is used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, the College’s Procurement Policy will always be observed.
Where external service providers are appointed with the responsibility for day-to-day treasury matters, the College will retain full responsibility for the safeguarding of its funds and setting the treasury strategy.

12. Corporate governance
The College 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.
<table>
<thead>
<tr>
<th>Risk</th>
<th>Description of the risk</th>
<th>College response to the risk</th>
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<tr>
<td>Credit, Counterparty and Reputational Risk</td>
<td>The risk of failure by a counterparty to meet its contractual obligations to the College under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the College's capital or current (revenue) resources.</td>
<td>The College 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 organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques listed in Appendix 2. The list will be reviewed on an ongoing basis by the Chief Financial Officer. Even if lending criteria are met, the reputational risk of using certain counterparties should be considered. Recent credit downgrades and market sentiment, as far as possible, should be taken into account, and communicated where appropriate to the Chief Financial Officer. The Chief Financial Officer 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, or if there are notable environmental, social or governance concerns.</td>
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<td>Liquidity Risk</td>
<td>The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs and that the College's business objectives will be thereby compromised.</td>
<td>The College will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or revolving credit facilities to enable it at all times to have the level of funds available so that it is not in breach of loan covenants and which are necessary for the achievement of its business objectives. Accordingly, the Chief Financial Officer is authorised to arrange a revolving credit facility if required. For long-term planning purposes the College’s objective is to maintain instant access cash balances (including money market funds) of at least 50 days’ expenditure (excluding depreciation) as measured at the balance sheet date. In the short and medium terms, balances may fall short of this level, but instantly accessible cash balances equivalent to at least 30 days’ expenditure should be maintained at all times.</td>
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<td>Interest Rate Risk</td>
<td>The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the College's</td>
<td>The College 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</td>
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<tr>
<td>Risk Type</td>
<td>Description</td>
<td>Mitigation Strategy</td>
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<td>Exchange Rate Risk</td>
<td>The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the College's finances, against which the College has failed to protect itself adequately.</td>
<td>The College will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. The College will normally only retain funds in USD and Euros to the extent that payments are due to be made in these currencies. This will be reviewed quarterly and any currency balances surplus to requirement will be transferred into sterling at the best rate achievable at that time.</td>
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<td>Refinancing Risk</td>
<td>The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the College for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.</td>
<td>The College 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 College as can reasonably be achieved in the light of market conditions prevailing at the time. The College 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.</td>
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<td>Fraud, error and corruption, and contingency management</td>
<td>The risk that the College fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.</td>
<td>The College 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, policies and procedures and will maintain effective contingency management arrangements.</td>
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<td>Legal and Regulatory Risk</td>
<td>The risk that the College itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the College suffers losses accordingly.</td>
<td>The College will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements.</td>
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<td>Covenant Breach Risk</td>
<td>The risk that the College fails to meet terms set by lenders which leads to default of loans and the resulting withdrawal of credit facilities.</td>
<td>The College will monitor its loan covenant compliance on an ongoing basis appropriate to the risk, to ensure it does not breach any of its existing financial covenants.</td>
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Appendix 2 - Approved instruments, methods and techniques

1. Credit and Counterparty lists
Security of the College’s funds will be achieved by restricting the placement of funds using the following criteria:

The cash flow requirements of the College are considered before each placement to ensure College can meet its obligations. At the time of placement no more than 25% of the cash balance (including day to day banking and money market funds), or £10m, whichever is lower may be deposited with any single counterparty.

Deposits with UK Banks and Building societies
- To avoid doubt, a UK Clearing Bank and Building Society is defined as having an established place of business in the UK and be regulated by the Prudential Regulation Authority (PRA).
- Short and long term credit ratings and outlooks from Fitch, Moody’s and Standard and Poor’s are considered and placements will be restricted to organisations that have a minimum credit rating of two or more of the agencies (NB this excludes day to day banking and money market funds – see section below):

<table>
<thead>
<tr>
<th>Deposits up to £10m</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>Standard &amp; Poor’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits between £10m and £20m</td>
<td>AA</td>
<td>Aa2</td>
<td>AA</td>
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- Investments and deposits (excluding day to day banking) with a single financial services group shall not exceed £10m. (For example, as Lloyds and Bank of Scotland are in the same banking group, the counterparty limit may be split across both institutions but may not exceed the limit in total. (For money market funds see below.)

- The maximum placement for over one year up to a maximum of two years is £10m.

Overseas Institutions
- Short and long term credit ratings and outlooks from Fitch, Moody’s and Standard and Poor’s are considered and placements will be restricted to organisations that have a minimum credit rating at ALL credit rating agencies as set out below.
- Investments with a single banking group shall not exceed £5m.

<table>
<thead>
<tr>
<th>Deposits up to £5m</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>Standard &amp; Poor’s</th>
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Money Market Funds
All money market funds must be regulated by the Financial Conduct Authority (FCA).
- Money Market Funds must be AAA rated by at least one of Fitch, Moody’s and Standard and Poor’s.
- Investments with a single Money Market Fund shall not exceed £10m

All investments in UK Banks and Building Societies, Overseas institutions and Money Market Funds will be made in GBP sterling.
2. Investing and depositing surplus cash funds

The overriding principle is to avoid risk rather than to maximise return. The criteria are therefore security, liquidity and yield, in that order.

- The Chief Financial Officer is responsible for the investment of available monies in accordance with the policy;
- Available monies can only be invested with organisations that fit the counterparty limits detailed in Appendix 2;
- The credit ratings of organisations will be monitored regularly using external sources of information such as credit agency reports. In addition, when a new investment is placed, the credit rating for that counterparty will be checked;
- The use of money brokers and other similar agencies in the placement of funds is permitted.

3. Banking Services

Banking Services provided by the College's bankers should be formally defined and there should be consideration for the following factors:

- Authority for the appointment of bankers and responsibility for banking arrangements is as defined within the Financial Regulations.
- The Banking Services will be market tested regularly to decide whether the banking services in conjunction with bank charges represent value for money.
- Banking Services will be monitored to ensure that the services provided are in accordance with the contract and are of a satisfactory standard.
- Bank charges will be monitored regularly to ensure that they are in accordance with the contract.

4. Refinancing

The Chief Financial Officer is authorised to approach any bank or financial institution in the UK regarding the raising of capital finance.

The Chief Financial Officer will prepare a report for approval by Finance Committee for each proposed new financing event. The report will include the following:

- Borrowing Requirements
- Purpose (with cash flows)
- Proposed Lender
- Interest Rate Structure (e.g. fixed, variable, variable with options to fix, linked)
- Interest Rate – plus lender’s margin
- Arrangement Fees
- Comparisons with alternatives
- Legality
- Arrangements for compliance with the Memorandum of Assurance and Accountability with the Higher Education Funding Council for England (HEFCE)
- The level of security required
- Any restrictions on the institution’s use of its property assets required by existing covenants
- Any other matters which might assist the Board of Governors in considering the proposal.

5. Responsibilities, reporting and review

The Chief Financial Officer will delegate daily management and execution of investment transactions to appropriate staff in the Finance Department.

The Chief Financial Officer will ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the Treasury Management function. The Chief Financial Officer shall report to the Finance Committee at least once in each financial year on the activities of the treasury management operation.

1 NB For the strategy with regard to endowment funds see the College’s Statement of Investment Policy