



# Treasury Management Policy

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# Treasury Management Policy

## 1. Introduction

1.1. The Policy has been developed to provide a control framework to manage the College treasury management activities.

## 2. Purpose and Aims

The College's treasury management activities are defined as:

- The management of the College's:
  - Cash flows;
  - Banking;
  - Money market and capital market transactions.
- The effective control of the risks associated with the previous activities; and
- The pursuit of optimum financial performance consistent with those risks.

## 3. Scope

3.1. The College will ensure that treasury management is effective in the successful identification, monitoring and control of financial risk. In balancing risk against return, the College is more concerned to minimise risks than to maximise returns.

3.2. The College will comply with Funding Council rules regarding approval for any secured or unsecured loans that go beyond the general consent levels set out in the financial memorandum.

3.3. The Policy of the College on borrowing is to minimise cost whilst maintaining the stability of the College's financial position through sound debt management techniques.

## 4. Policy Statement

### 4.1. Risk Management & Control

4.1.1. The Board of Management shall approve any secured borrowing proposal.

4.1.2. All borrowing shall be undertaken in the name of the College and shall conform to any relevant Funding Council requirements. In particular:

- The Board shall not, without the prior written consent of the Funding Council undertake a level of finance leases where the annualised cost of all finance leases or the actual cost in any one year of all finance leases would exceed 4% of total income;
- The Board shall not, without the prior written consent of the Funding Council, offer as security for a loan any College assets in which Scottish Ministers have an interest;
- The College can demonstrate that the related capital investment is in accordance with the College's Strategic and Operational Plans.
- The College shall be able to repay the sum borrowed and pay interest without an increased level of funding from the Funding Council; and
- The ability of the College to maintain financial viability shall not be impaired as a result.

4.1.3. The Chief Financial Officer has delegated powers from the Board of Management (Finance Committee) to implement the agreed approach to the investment of temporary surplus balances. (See section 9 on Credit Risk Management)

4.1.4. Any investment out with the approved investment strategy must be approved by the Finance Committee.

4.1.5. The Chief Financial Officer shall ensure investments are restricted to:

- Short-term Bonds;
- Fixed deposits; and
- Deposits on call, 2 or 7 day notice.

4.1.6. The Chief Financial Officer will ensure the following records are maintained:

- Daily monitoring of cleared balances for each of the College's accounts, payments, direct debit income and any other significant items of income and expenditure.
- Cash flow history detailing each month's expenditure and income, under the main categories.
- All investments, detailing principal invested, rate of interest, period of investment, borrower, borrower's banker and bank details and confirmation.
- Investment Register detailing date of lending, borrower, interest rate, agreed term, date of maturity and amount invested.

## **4.2. Liquidity Risk Management**

4.2.1. The Chief Financial Officer shall ensure the College has:

- Adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the necessary level of funds available; and
- A daily balance contained within instant access bank accounts that will not be in credit by less than £500,000 in total.

## **4.3. Interest Rate Risk Management**

4.3.1. The Chief Financial Officer shall:

- Ensure the College is protected adequately against the risk of fluctuations in the level of interest rates, which could create an unexpected or unbudgeted burden on the College's finances;
- Budget for income from interest by using market rates at the budget date; and
- Maximise interest rate return where possible, without exposure to risk.

## **4.4. Exchange Rate Risk Management**

4.4.1. The College will receive some of its revenues in relation to overseas contracts in foreign currencies. The Chief Financial Officer shall ensure that the College is protected adequately against the risk of fluctuations in

foreign exchange rates, which could create an unexpected or unbudgeted burden on the College's finances. Typically this would mean that any currencies received will be translated into sterling at the earliest opportunity.

4.4.2. The College may however decide in certain circumstances to hedge its expected foreign currency cash flows with a primary objective to protect against the risk of appreciation of Sterling relative to foreign currencies. The College will not enter into derivative transactions for speculative trading purposes. Specific consent will be sought from the Board for all derivative transactions. The Chief Financial Officer will produce a report where any derivative transaction is proposed covering the following:

- Type of derivative proposed
- Purpose and objectives of the derivative
- Analysis showing the appropriateness and effect on risk(s)
- The proposed accounting policy and impact on the City of Glasgow College's accounts

4.4.3. In addition the Chief Financial Officer shall:

- Not place any investments, which will directly expose the College to exchange rate risk. Therefore, the College will not borrow or deposit funds denominated in foreign currencies other than Euro accounts, which might from time-to-time be required where payment is required in Euros

#### **4.5. Inflation Risk Management**

The Chief Financial Officer will monitor the impact of inflation on a regular basis and report any significant changes that have a material impact on the College's projected operating position to the Board of Management (Finance Committee).

#### **4.6. Credit Risk Management**

4.6.1. Credit Rating Criteria

4.6.1.1. The College uses the creditworthiness service proved by Capita Asset Services, its Treasury Advisor. This service uses a modelling approach with credit ratings from all three rating agencies – Fitch, Moodys and Standard and Poors, forming the core element.

However, it does not rely solely on credit ratings but combines credit rating, credit watches, credit outlooks and credit default swap spreads into a weighted scoring system. The end product is a series of colour coded bands that indicate the relative credit worthiness of counterparties. These colour codes are also used by the College to determine the period for investment. A weekly list is received by the College of these suggested counterparties. Any changes to the approved list is immediately advised to the College.

4.6.1.2. The College is satisfied that this service gives a much improved level of security for its investments.

4.6.1.3. Sole reliance will not be placed on the use of this Capita Asset Services creditworthiness service. In addition, the College will form its own views on creditworthiness and risk by using market data, information on government support for banks and the credit ratings of government support.

4.6.1.4. Capita Asset Services currently recommends that its clients look at lending to banks within countries with a minimum sovereign rating of AA- from Fitch Ratings.

4.6.1.5. Potential revisions to the College's approach to setting credit ratings are monitored and changes to the counterparty list or the criteria are reported retrospectively to the Board (Finance & Physical Resources Committee), as are breaches of the limits.

4.6.1.6. The College will only lend to organisations which it believes have a high level of creditworthiness. This is defined as meeting Capita Asset Services creditworthiness criteria, combined with the College's in-house views.

4.6.1.7. The list will also include the College's own bankers, albeit this will be limited to overnight deposits if the credit rating is below the minimum criteria as suggested by Capita Asset Services.

#### **4.7. Reporting Requirements**

- 4.7.1. Any instances of non-compliance with the College's Treasury Management Policy will be reported to the Finance Committee by the Principal or the Chief Financial Officer.
- 4.7.2. A report will be presented to the Board of Management (Finance Committee) when it considers the annual budget. The report will detail the treasury management strategy and plan to be pursued in the coming year. The report will:
- Detail anticipated income from externally managed funds, internally managed funds, and expected rate of return, alongside interest expected from other sources;
  - Set out how the College will fund its proposed capital programme for the coming year; and
  - Set out how the College will meet any debt/loan due for re-payment.
- 4.7.3. The Chief Financial Officer shall ensure regular cash flow reports are provided to the Finance Committee.
- 4.7.4. A report will be presented to the Board of Management (Finance Committee) when it considers the annual financial accounts if investment returns vary materially budgeted projections. The report will detail the actual income from externally managed funds, internally managed funds and explanations for the variances.

#### **4.8. Banking and Cash Flow Management**

- 4.8.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the College will be under the operational control of the Chief Financial Officer and will be aggregated for cash flow and investment purposes. All bank accounts shall be in the name of the College or one of its subsidiary companies.
- 4.8.2. The Principal together with Chief Financial Officer shall agree the authorised signatories for College bank accounts.

4.8.3. Cash flow projections will be prepared on a regular and timely basis and the Chief Financial Officer will ensure that these are adequate for the purposes of monitoring compliance with Liquidity Risk Management.

4.8.4. The Chief Financial Officer shall be responsible:

- for liaising with the College's bankers in relation to the College's bank accounts and the issue of cheques/electronic payments;
- for opening or closing College bank accounts;
- for ensuring that all bank accounts are subject to regular reconciliation and that large or unusual items are investigated as appropriate; and
- Ensure all payments have dual authorisation by approved staff.

4.8.5. The Head of Finance shall:

- Monitor College's cashbook on a monthly basis in order to maintain a cash flow history; and
- Will use this information to prepare and update cash flow forecasts/budgets to the end of the financial year and on a quarterly basis (as a minimum).

#### **4.9. Money Laundering**

4.9.1. The College shall remain 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:

- Key members of staff will be trained to be vigilant.
- The Chief Financial Officer will review potential cases of money laundering.
- The Chief Financial Officer will report confirmed cases of money laundering to the Principal, Internal Auditors and the Police.
- The Audit Committee will be informed of all cases of money laundering.

4.9.2. The College will not accept a cash transaction of greater than £10,000.

4.9.3. For borrowers (students paying by instalments), the borrower should be contacted and be required to normally provide a debit or credit card to the College before the borrowing is agreed.

#### **4.10. Staff Training and Qualifications**

The College recognises the importance of ensuring that all members of staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The Chief Financial Officer shall, therefore, ensure sufficient resources are made available to properly induct new members of staff and maintain the treasury management skills of existing members of staff through staff development & training programmes.

#### **4.11. 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. A full evaluation of the costs and benefits will be performed prior to appointing a treasury management service provider. The evaluation 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. The Chief Financial Officer will monitor and report on the performance of any such arrangements.

The College currently has a contractual arrangement with Capita Asset Services, Treasury Solutions, (formerly Sector Treasury Services) to support the treasury operations.

## 5. Definitions

**Hedge Transactions** A type of transaction that limits investment risk with the use of derivatives, such as options and futures contracts.

**Derivative Transactions** A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset.

## 6. Responsibilities

- 6.1. There will be 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 key treasury management decisions.
- 6.2. The Board of Management shall be responsible for the effective governance of this policy.
- 6.3. The Board of Management 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.
- 6.4. The Board shall delegate responsibility for the implementation and monitoring of its treasury management policies and practice to the Principal and Chief Financial Officer.
- 6.5. The Chief Financial Officer shall ensure that there are clear written statements (per job descriptions) of the responsibilities for each post engaged in treasury management.
- 6.6. The Chief Financial Officer shall be responsible for the operational management of this policy.

- 6.7. The Chief Financial Officer will ensure there is proper documentation for all transactions, and that procedures exist for the effective transmission of funds.
- 6.8. The Head of Finance shall review the College's cash balances on a daily basis and will arrange to place investments or transfer funds as appropriate, on authority from the Chief Financial Officer.

## 7. References

### 7.1. Policy Framework

Associated Policies and Procedures	Title

### 7.2. Other College Policies and Procedures

Policy / Procedure	Title

### 7.3. External References

Source	Title

## 8. Document Control and Review

<b>Approval Status</b>	Approved
<b>Approved by</b>	Finance Committee
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<b>Lead Department</b>	Finance
<b>Lead Officer(s)</b>	Chief Financial Officer
<b>Board Committee</b>	Finance Committee
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## 9. Revision Log

Version Date	Section of Document	Description of Revision
V1		Initial post merger policy
V2		General update
V3	4.9.2	Update to banking service Update to dates and job titles
V4	4.1.2 4.1.5 4.2.1 4.7 4.7.2 4.9.2 General	Reworded as Finance leases Update to investments Credit balance increase Previous section removed Update reporting timetable Removed (4.9.3 now becomes 4.9.2 etc) Update to dates and job titles
V5		Reviewed with no changes
V6		General update